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Nestor Healthcare Group plc

Annual Report and Accounts 2001

Nestor
Healthcare
Group plc

Contents

A leading and valued partner in UK health

Healthcare Personnel Division

British Nursing Association (BNA) is the UK's leading provider of nursing and care professionals to a wide range of institutions.

Turnover

	2001 £m	2000 £m
BNA	210.8	183.5
Grosvenor Group	79.3	45.1
Others	18.7	16.8
Total	308.8	245.4

Healthcare Services Division

Primary Care

Primary Care Out-of-Hours Services is the leading provider of GP and other out-of-hours services to the NHS. The services are delivered via clinical response centres, primary care centres and, where required, by home visit.

Government contracts

Forensic Medical Services provides primary care services to Police Authorities and secure establishments including prisons, immigration and detention centres, and young offender institutions within both public and private sectors.

Turnover

	2001 £m	2000 £m
Primary Care	32.4	12.2
Government Contracts	59.7	35.2
Total	92.1	47.4

h and social care.

The Grosvenor Group of companies concentrates on providing specialist nursing and care to the NHS and to Social Services. It also provides temporary residential care services for the elderly and those convalescing in their own homes.

Carewatch is the UK's leading franchised domiciliary care provider. It provides a variety of services to people needing care and support in their own homes, either directly to the individual or via Social Services Departments.

The Medic Group is a major supplier to the NHS and the private sector of quality locums and professionals allied to medicine. It also recruits healthcare professionals from around the world to help address the shortfall in many healthcare environments.

Healthwatch is the UK's only 24-hour home healthcare monitoring business providing personal healthcare services through leading edge telecare technology.

Primecare provides complex healthcare-at-home services, offering an alternative to hospital treatment and tailored to meeting the needs of individuals in the community.

Nestor Disability Analysis provides doctors for domiciliary screenings or temporary support to the Benefits Agency Medical Services of the Department of Work and Pensions.

The Healthcall DTI Medical Assessment Process undertakes medical assessments of former coalminers for lung disease as part of the largest industrial compensation scheme in the world.

Financial Highlights

- The Group's results reflect continued strong growth in turnover, operating profits and margins
- The acquisition of Healthcall constitutes a step change in the Group's strategy to achieve growth in higher margin healthcare services businesses
- Both the Healthcall and Goldsborough acquisitions have been integrated successfully into the Group in the year and are expected to contribute significantly to Group profits in 2002

	2001 £m	2000 £m	Increase %
Turnover	**401.0**	292.8	+37
Operating Profit*	**25.5**	18.3	+39
Pre-tax Profit*	**23.9**	18.8	+27
Earnings per Share*	**20.5p**	17.1p	+20
Dividends per Share	**8.02p**	6.69p	+20

* before goodwill amortisation and exceptional items.

UK population over 60 years of age
Population (millions)

Health expenditure as a percentage of GDP (1998)
Percentage of GDP (Source: OECD health data 2001)

The Health and Social Care Marketplace

Health and social care is the largest single market within Europe. Current value in the UK stands at £83bn and is predicted to grow by 16% in three years.

The reality of supply

As demand for quality professionals in all areas of health and social care continues, Nestor is working with the Government to further develop Public Private Partnerships to address the supply shortages. Provision of health and care professionals, whilst in some areas is increasing, in real terms is still not keeping a pace with demand.

Ageing population

The driving force behind the growth of the UK health and social care market is an ageing population. The 60+ age group is estimated to make up 25% of the population by 2020, with the 85+ age group increasing from 1.1m to 3.0m by 2056. The cost per head of providing health services to the 85+ age group is more than four times higher than the cost of providing services to 45 to 64-year-olds.

Government funding

More than 80% of the market is funded by the Government and spending on NHS and Social Services Departments is just under 6% of Gross Domestic Product (GDP). The Government plans to bring spend closer to the EU average will mean a rise of more than 50% in real terms over the next four years.

UK registered nurses
UKCC Register (000's)

Social Services care provision
Hours of care (millions)

The NHS

- The ten year plan indicates a 50% increase in funding.
- A key objective is to bring national waiting lists down to a maximum of three months.
- Implementation of national service frameworks will mean a consistent delivery of high quality care.
- Increases in all health and social care staffing to meet the demands are planned. Public Private Partnerships are to be developed as an integral element to meet the increasing burden on the NHS.

Social Services Departments in the UK

- Total spend of £11.2bn planned in 2002/3 of which elderly domiciliary care amounts to £2.3bn.
- Total of 146m homecare contact hours in England in 2000 of which 56% was outsourced to the independent sector.

Nursing and Residential Homes

- Market value of £9.1bn of which 68% is in the private sector.
- Total of 628,900 places in residential settings across all sectors.

Private Hospitals and Patients

- Total market in 2000 worth £3.2bn.
- Service delivered through 222 independent acute medical hospitals with 9,834 independent acute medical beds and 82 NHS private patient units with 1,387 beds.

Occupational Health

- Sickness absence in the UK is estimated to cost £10.5bn annually.
- In 2000 total spend on occupational health amounted to £225m with £75m contracted out.
- A number of factors will lead to increased spend on occupational health including HSE campaigns launched to make employers more aware, increases in litigation and new illnesses such as repetitive strain injury.

Institutional Health

- Currently there are 157 prisons and young offender institutions and eight immigration centres in the UK.
- The prison population is predicted to rise from 67,000 to approximately 80,000 by 2007, with a higher proportion of female inmates with differing health and social care requirements. The Prison Service is to invest £60m in healthcare improvements by 2003.

Primary Care

- By 2004 it is expected that there will be 344 Primary Care Groups and 176 Primary Care Trusts.
- Primary Care Trusts in England will hold 75% of NHS budget by 2004.
- Planned transition of Primary Care Groups to Primary Care Trusts by April 2004.

Intermediate Care

- An additional £900m of investment is expected by 2003/4.
- The objective of intermediate care is to build a bridge between hospital and home, thereby preventing unnecessary longevity of stay and ensuring timely and appropriate discharge.

Antony Beevor
Chairman

2001 has been a year of dramatic growth and strategic advancement and we have continued to grow turnover, operating profits and margins across the business.

Chairman's Statement

It is a privilege to be succeeding David Heywood who retired as Chairman at the end of the year, having led the company for seven years through a period of outstanding growth in shareholder value. Under David's stewardship, Nestor has become a leading provider of health and social care in the UK, strongly placed to take advantage of the opportunities presenting themselves in that market.

Summary of results

2001 has been a year of dramatic growth and strategic advancement for Nestor. We have continued to grow turnover, operating profits and margins across our businesses, through a combination of organic growth and acquisition.

- Turnover grew by 37% to £401.0m (2000: £292.8m)
- Operating profits were up 39% to £25.5m (2000: £18.3m)
- Pre-tax profit increased by 27% to £23.9m (2000: £18.8m)
- Earnings per share were 20% higher at 20.5p (2000: 17.1p)
- Operating margins were 6.4% (2000: 6.3%)

The above figures, and those in this statement, are stated before exceptional items and goodwill amortisation but including the development costs of new businesses of £1.6m.

Dividends

Your Board is recommending a final dividend per share of 5.12p (2000: 4.27p), making total dividends per share for the year 8.02p (2000: 6.69p), an increase of 20%.

Acquisitions

During the year, Nestor made two significant acquisitions that constitute a step change in achieving the Group's growth strategy.

The most significant of these was the acquisition of the Healthcall Group for £110m in September, which was partly financed by the issue of an additional 10% of the company's issued share capital, raising approximately £37m.

Healthcall is a leading provider of healthcare services to the growing primary care market and affords a number of exciting opportunities to the Group. It significantly increases the size of the Group's Healthcare Services Division and its ability to develop innovative services to its primary care customers, who, under the NHS Plan, will be responsible for 75% of the NHS's budget from 2004.

Healthcall's leading GP out-of-hours business, serving approximately 25% of the UK's population, has already been successfully integrated with Nestor's existing GP out-of-hours business. We are now working to achieve the synergies and improvements in clinical quality identified by the Board at the time of acquisition.

Its other major operation is its Contracts business which most notably delivers comprehensive medical assessments for lung disease on behalf of the DTI for the purpose of providing compensation to UK coal miners. Its management is now fully integrated with that of Nestor's existing Government Contracts business.

The successful integration of Healthcall will deliver cost savings in excess of £1m in 2002 and between £2m and £3m in 2003.

The other major acquisition for the Group was the Goldsborough homecare businesses, including Primrose Care and Helping Hands, acquired from BUPA in April for £8m with a further amount of up to £2m payable in March 2002. Although the business was loss-making prior to acquisition, following integration into our BNA branch network, we expect it to continue to contribute positively in 2002.

Split of Group turnover

1999

2000

2001 **Proforma (Full year of acquired businesses)**

○ Healthcare Personnel Division
○ Healthcare Services Division

Summary of performance

Healthcare Personnel Division

The Healthcare Personnel Division comprises British Nursing Association, the Grosvenor Group and other businesses focused on providing personnel in health and social care on a temporary basis to a wide client base including NHS Trusts, Local Authorities and nursing homes.

- Turnover was up 26% to £308.8m (2000: £245.4m)
- Operating profit grew by 25% to £20.0m (2000: £16.0m)
- Operating margins were 6.5% (2000: 6.5%)

During the year, the Division has focused on the continuing improvement of turnover and operating profits. Underlying operating margins (excluding the effect of LPNS, which focuses on high volume, lower margin NHS contracts) have also continued to improve. The NHS market represents 58% of the Healthcare Personnel Division's turnover (2000: 58%) with homecare growing to 23% (2000: 20%), nursing and residential homes falling to 11% (2000: 14%) and other 8% (2000: 8%).

BNA, the UK's leading nursing and care agency which accounts for the majority of the Division's business, achieved a turnover of £210.8m (2000: £183.5m), an increase of 15%, with improved margins.

Following the acquisition of the Goldsborough businesses in April, BNA integrated all 78 of Goldsborough's branches into its existing network by the end of August. The Goldsborough businesses contributed £17.7m to turnover and the successful integration of these businesses contributed positively to cost savings. The homecare businesses of Healthcall were also fully integrated by the year-end. The absorption of these businesses was a considerable achievement since previously both had been loss making.

In turnover terms, BNA's most significant growth was in homecare, although in terms of contribution to operating profit, the NHS sector saw the largest increase as BNA continued to focus on higher quality agency contracts.

The Grosvenor Group, the Group's specialist nurse and care agency, achieved turnover of £79.3m (2000: £45.1m), an increase of 76%, although a substantial element of this increase was the full year effect of LPNS (acquired in October 2000). However, Grosvenor continued its organic growth, and in October won a major agency contract with the South London and Maudsley NHS Mental Health Trust, for an annual value of approximately £6m.

NHS Professionals had some impact on the nursing turnover growth of both BNA and the Grosvenor Group during the year. Fewer contracts went out to tender than expected as a result of a number of Trusts postponing decisions to sign up to long-term commitments. On the other hand, commission levels from our regular agency business with NHS Trusts increased in the latter part of the year.

All other Healthcare Personnel businesses, including the Medic Group, performed satisfactorily. I am particularly pleased with the continued impressive growth of Carewatch, which almost doubled its turnover to £5.3m (2000: £2.8m) with over 100 franchised branches nation-wide, delivering more than 90,000 hours of homecare each week (equating to circa £40m of gross revenue annually). Since 30th November, Nestor has owned 100% of Carewatch, having acquired the remaining 49% for consideration of £1.5m.

Healthcare Services Division

The Healthcare Services Division delivers innovative solutions to the UK's growing healthcare market through the primary care sector or in government contracts.

- Turnover was up 94% to £92.1m (2000: £47.4m)
- Operating profit more than doubled to £5.5m (2000: £2.3m) even after taking account of new business development costs of £1.6m
- Operating margins were 6.0% (2000: 4.9%)

The Healthcall acquisition represents a step change in achieving the Group's growth strategy and we are strongly placed to take advantage of the opportunities presented by the health and social care market in the UK.

Chairman's Statement continued

The Healthcare Services Division was transformed with the acquisition of Healthcall in September, which contributed turnover of £37.6m.

The Division is sub-divided into two management groups, Primary Care and Government Contracts.

Primary Care comprises the UK's largest provider of out-of-hours services to GPs and Primary Care Trusts, as well as the new businesses of Primecare and Healthwatch, providing complex disease management and healthcare monitoring services.

Government Contracts comprises MAP (the miners' Medical Assessment Process for the DTI), Forensic Medical Services, delivering healthcare services to police forces, prisons and other secure establishments, Nestor Disability Analysis, supplying screening services to the Benefits Agency and a number of other businesses providing services to a variety of clients and institutions.

Primary Care achieved a turnover of £32.4m (2000: £12.2m) with the increase largely deriving from the acquisition of Healthcall in September. A programme of quality improvement is underway, including a comprehensive review of clinical standards observed by duty doctors. We are also implementing our plans to achieve the synergies identified by the Board at the time of acquisition.

Profits were reduced by £1.6m through our investment in Healthwatch, the healthcare monitoring business and in Hertford Medical International. The prospects for developing our new businesses of Healthwatch and Primecare have improved following the opportunity afforded by the acquisition of Healthcall and the opportunity to work with Primary Care Trusts.

All other businesses in this management group performed in line with expectations.

Government Contracts' performance was enhanced by MAP successfully completing more screenings than anticipated in the fourth quarter. This contract contributed £17.6m to Group turnover (post-acquisition) and £43m in the calendar year 2001.

All other businesses in this management group, including Forensic Medical Services, performed in line with expectations.

Board and management

In addition to David Heywood's retirement, there have been a number of changes to the Board during the year.

Stephen Page, who joined the Group in November 2000 as Managing Director Healthcare Services Division, was appointed to the Board in March 2001.

Bill Holmes, previously a non-executive director, became an executive director in October following the acquisition of Healthcall. He has special responsibility for all clinical processes, protocols and quality.

Robbie Burns, formerly Managing Director of Healthcall, joined the management team in September as Managing Director of the Government Contracts group and was appointed to the Board on 1st January 2002.

Mike Horgan, Managing Director, Healthcare Personnel has stepped down from the Board with immediate effect but remains part of the management team as Managing Director of Carewatch. I would like to thank Mike for his contribution

Operating profit by division (£m)*

Healthcare Personnel Division

Healthcare Services Division

* before goodwill amortisation and exceptional items

at Board level over the last two years. He will be succeeded as Managing Director of the Healthcare Personnel Division by Stephen Booty, who joined the Group in January 2002.

Ingrid Alexander, CBE, joined the Board as a non-executive director in August and, as a former member, brings with her a wealth of experience in health and social care as Chair for the Central Council for Education and Training in Social Work and former member of the General Social Care Council Advisory Group.

Tim Harris, CBE, joined the Board in January 2002. His extensive business experience as assistant Managing Director of P&O will be invaluable to the future direction of the Group.

Quality

Following the acquisition of Healthcall, the Group has significantly enhanced the central support capability. Two senior clinicians have taken up full-time roles at Group level to ensure the excellence of the Group's clinical governance standards, supported by a team of professionals responsible for the day-to-day maintenance and audit of those standards. In addition, the Group's management development and training capabilities have been significantly improved, under the direction of a new Director of Human Resources and Director of Education & Development.

Staff

On behalf of the Board I should like to thank the Group's staff, who once again have shown commitment and enthusiasm in this exciting year of change. Such commitment is reflected in the Group's continuing development and success. I should also like to welcome those staff who joined us in 2001, especially those who were employees of the businesses we acquired during the year. I should particularly like to acknowledge their contribution to the successful integration of those businesses into our Group.

Outlook

Prospects for the UK health and care market are excellent.

In the Healthcare Personnel Division, our businesses are continuing to grow, with particularly strong development in homecare.

In the Healthcare Services Division, the businesses are performing well. In GP out-of-hours services, we continue to improve the quality and efficiency necessary to develop the major opportunities available in the primary care sector. The Government Contract businesses are also performing well.

The successful integration of Healthcall, our major strategic acquisition, has substantially improved the size and scale of our Healthcare Services businesses.

The Government's recent commitments to provide additional funding and to involve the private sector in the provision of healthcare, combined with Nestor's leading position in many of its markets, means that, overall, prospects are encouraging.

Antony Beevor, Chairman
4th March 2002

Justin Jewitt
Chief Executive

With our increasing resources, over 150,000 clinical staff and excellent quality healthcare services, we are confident of further growth in 2002, taking full advantage of strategic partnerships for the delivery of high quality health and social care services in the UK.

Chief Executive's Review

2001 was a pivotal year for the Group in both actual results and strategic development. It enjoyed yet another year of growth in turnover and profits and continued to develop a number of new businesses designed to assure future organic growth. These achievements were combined with the completion of two excellent strategic acquisitions that have helped to transform the Group and position it for increased growth in the UK health and social care market.

Delivering growth

During the year, the Group's turnover grew by 37% to £401.0m and operating profit* by 39% to £25.5m. This excellent performance has been achieved by both our well-established Healthcare Personnel Division (26% turnover growth and 25% operating profit* growth in 2001) and in the newer Healthcare Services Division (94% turnover growth and 139% operating profit* growth), which provides higher value-added services, through a combination of organic growth and well-delivered acquisitions. Over the past six years, since our strategic decision to focus on the provision of health and social care services in the UK, our compound annual growth rate has been an average of 26% in turnover and 25% in profit before tax*.

Highlights of the year

Healthcare Personnel Division

The Healthcare Personnel Division is managed in four separate groups; BNA Group, Grosvenor Group, Medic Group and Carewatch, each with distinctive brand attributes. This enables both the customer and the care professional to choose the type of service they wish to work with, whilst ensuring maximum cost-effectiveness through the grouped provision of support services.

Key achievements of the year include the successful implementation by BNA of a contract to provide Ealing Social Services Department with domiciliary care services. This five-year contract was secured in late April and BNA's homecare services team worked quickly and effectively to ensure that sufficient care staff were in place to begin a quality service on its start date in June. BNA's homecare business was also successful in renewing for three years the valuable Staffordshire Social Services contract. These two contracts alone are worth more than £7.5m in turnover per annum.

The Grosvenor Group won a brand new, three-year agency contract to supply mental health nursing staff to the South London and Maudesley Mental Health NHS Trust, valued at over £6m turnover per annum. Its specialist nurses business also enjoyed a very positive year, as did Carewatch, which provides care assistants to Social Services Departments. Both have seen turnover growth in excess of 30%, proving the value of small, highly-focused brands designed to meet a specific segment of the health and social care sector.

Medic Group developed a unique service for General Healthcare Group, the UK's largest independent hospital provider, to fulfil its entire need for flexible clinical staffing across all 46 of its hospitals in the UK.

In May, the NHS awarded preferred supplier status to five of the Group's agencies under the London Agency Project, covering 64 London Trusts. As a result, the Group is well placed to benefit from the growth in demand in London for agency nursing staff.

In Social Services, there are at least two major outsourcing opportunities, similar to the Brent and Ealing contracts, open to tender in 2002.

* operating profit and profit before tax are stated before goodwill amortisation and exceptional items

Healthcare Services Division

The Healthcare Services Division also demonstrated good organic growth. Its Forensic Medical Services, with its partner Group 4 Falck, won another contract to operate healthcare services for an immigration centre. NDA's contract to supply the Benefits Agency's Medical Services screening contract has been extended for a further two years, until 2005, subject only to its partner, SchlumbergerSema, meeting the Department of Work and Pensions' performance standards by May 2002. Healthcall's Medical Assessment Process (MAP) will achieve its contractual targets six months early and is well positioned for a possible re-tender of a new three-year contract, covering a further 100,000 claimants. The Spirometry contract, providing initial screenings for claimants, has been extended for a further 12 months to January 2003.

Primecare, our new nurse-led home-healthcare business, continues to grow impressively. Its 2001 turnover of £2.6m, continued the steep growth curve begun in 2000 and continued in the first months of 2002. Its core services are supported discharge and hospital avoidance programmes, meeting the key challenge of managing throughput in acute hospitals. In the last quarter of 2001, Primecare won four contracts for the supervision in their own homes of patients with chronic obstructive pulmonary disease (COPD), delivering this service to both acute and Primary Care Trusts. Nestor has also registered its interest with the National Institute for Clinical Excellence (NICE), in becoming a party to the process of defining guidelines for this important disease.

Primecare has also recently begun a small, new partnership with Capio to provide home chemotherapy. A pilot test of 20 patients is underway in the Essex area with oncology consultants based at one of Capio's private hospitals.

During the year, we invested a further £1.6m in health monitoring services. Healthwatch, the Group's innovative home healthcare monitoring service, is targeted to open up an exciting and potentially enormous market. Approximately 90% of our investment has been spent on the clinical staffing and running costs associated with the 24 hour a day, 7 day a week clinical monitoring centre that is required to operate the service to even a single patient. The lead-time from initial interest to subscribing has been disappointingly slow; it has taken almost 18 months to secure the first small contract. However, the second contract was secured only four weeks later. We can already see evidence of further revenue growth in 2002, as Ambulance Trusts, Primary Care Trusts and Social Services Departments are beginning to find the necessary funding to take advantage of the cost-efficiencies the service can offer by providing monitoring services that otherwise would only be available in institutions. However, we remain pragmatic in our view of this business and it is important that we can see sure signs of a revenue breakthrough in 2002.

Strategic acquisitions

The Group made two major strategic acquisitions in 2001, both of which were fully integrated by the year-end. In the Healthcare Personnel Division, BNA acquired the Goldsborough businesses from BUPA in April. By integrating its 78 branches into BNA's existing network, adding only ten to its net total, we were able to remove a significant element of cost and turn a loss-making operation into one that will contribute positively to BNA's operating profit in 2002. The major closure and rationalisation programme required to achieve this was completed in only four months and BNA's integration team deserves credit and the thanks of the Board.

In September, we made a significant advance in the Group's strategy to develop its value-added Healthcare Services Division with the completion of the acquisition of the Healthcall Group. With an annual turnover in 2001 of approximately £111m, almost all of which is focused on the provision of services to

Chief Executive's Review continued

Primary Care Trusts and Government organisations, Healthcall provides the Group with an excellent platform for growth. The Government's stated intention of creating over 400 Primary Care Trusts by April 2004, responsible for almost 75% of the NHS' £70bn budget, makes the primary care market by far the largest strategic sector in UK health and social care.

An ambitious integration plan, agreed with Healthcall's key management, was successfully delivered between September and the year-end. Early cost-reductions identified before the acquisition have already been actioned; in the Healthcare Personnel Division, the total integration of Healthcall's HPA and Euromed brands was completed by November. In Healthcare Services, Healthcall's major business units, GP out-of-hours services and Government Contracts, have been harmonised with the Group's existing businesses in two focused management groups – Primary Care and Government Contracts.

In 2002, the Group's focus will be on continuing quality improvements in the GP out-of-hours service and on working in partnership with the NHS. We are also enhancing our technology in order to handle more efficiently the six million calls taken by the business and thus to create a platform for further partnership opportunities with the NHS. This could include NHS Direct, which is already integrated with many of our clinical response centres across the UK.

Government initiatives

Since its launch of the NHS Plan in July 2000, the Government has begun to change radically the way in which the NHS and Social Services Departments operate. In December 2000, it announced the signing of a Concordat with the private sector to work together for the benefit of patients in the UK. Since the general election, it has encouraged debate regarding large-scale Public Private Partnerships between the NHS and the independent sector. The Group is well placed to take advantage of any such partnerships in the acute or primary care sector.

A further Government initiative was the launch in April 2001 of NHS Professionals. This aims to be a nationwide in-house staffing service to replace the current individual Trust arrangements for internal nurse banks. Its early development is causing some confusion in the marketplace. The Group's Healthcare Personnel Division lost some turnover volume to this initiative, although commission income was maintained. The NHS planned to roll-out the service fully by April 2003 but has experienced some teething problems with initial implementation. Nestor, with its UK-wide branch agency network, is uniquely positioned to develop a Public Private Partnership and could well be a helpful mechanism to assist with the roll-out of NHS Professionals.

The Carson Report on GP out-of-hours provision, published in October 2000, lays down for the first time national performance standards across England for both public and private service providers. For example, by April 2004, 90% of telephone calls must be answered within 30 seconds, 100% of calls needing clinical attention must be triaged within 30 minutes and 100% of the highest priority home visits must be completed by a doctor within 60 minutes. The Group strongly supports these standards and believes that they could form the basis of future opportunities to partner the NHS in the provision of in-hours services in the primary care sector and elsewhere.

The Care Standards Act, to be implemented from April 2002, will provide some very exciting opportunities for the Group. The proposed Standards to be introduced include annual inspections, bi-annual reviews of care assistants and the requirement that 50% of all care assistants must be studying towards an NVQ Level 2 qualification by 2007. The standards will ensure that only service providers that focus on quality will become and remain accredited. The Group has the resources to recruit, train and regulate its workforce, to a degree that is

unlikely to be equalled by other providers in terms of performance and cost-effectiveness. We expect that a number of the smaller domiciliary care providers, unable to meet the required Standards, will exit the marketplace and we are well-positioned to satisfy the demand for homecare provision that this development will create. As anticipated in the Standards, the Group's costs of implementing these quality initiatives will be flowed through to our Social Services and homecare clients.

Management

With the addition of Healthcall and the Goldsborough businesses to the Group, we have significantly enhanced our central support capability. Two senior clinicians have taken up full-time roles to ensure the excellence of the Group's clinical governance standards, supported by a team of professionals responsible for the day-to-day maintenance and audit of those standards.

The Group's commitment to the ongoing development of its care professional and management workforce has received an added boost in the appointment of a strategic Director of Human Resources, whose team is focused on making the Group a preferred employer in the sector. Under his management, the Group's training capabilities have also been significantly improved, with the launch of Nestor Academy – a major initiative designed to become a leading provider of training in the health and care industry and to assist the Group's own workforce to meet and exceed the requirements of the Care Standards Act.

Fit for the future

The Group is keen to build on its excellent platform in UK health and social care. It has a proven track record of effective acquisitions, improving quality in the businesses acquired, whilst at the same time reducing their cost base. It also continues to take advantage of the organic growth opportunities identified by the businesses, assisted by our in-house research team.

Our new businesses will aim for further 'breakthrough' opportunities, although we will not divert management attention from the delivery of the key quality improvement programmes being implemented in the Primary Care GP out-of-hours service, delivering a business fit for the next decade.

The MAP contract with the DTI for the assessment of lung disease in coalminers is due to expire in November 2002. The demand for screenings under MAP has far exceeded the DTI's original expectation of 75,000 and we are hopeful that a new three- to five-year contract will be awarded to the Group in the likely event of a public tendering process.

The strategic review of opportunities presented by the enlarged Group has prompted the executive management team to agree ambitious new growth targets focused around the mission statement to be "a leading and valued partner in UK health and social care". This mission statement aims to reflect the Group's ambition to be market leader in every sector of health and social care in which it operates – now and in the future – and its recognition of the value of partnerships – with its customers such as the NHS and Social Services Departments, and with providers of specialist services such as Group 4 Falck and SHL – that can enable the Group to deliver high quality, cost-effective health and care solutions.

With our expanding resources, over 150,000 clinical staff and excellent quality health and care services, we are confident of further growth in 2002, taking full advantage of strategic partnerships for the delivery of high quality health and social care services in the UK.

Justin Jewitt, Chief Executive
4th March 2002

Healthcare Personnel Division
Focus on homecare

The Healthcare Personnel Division's businesses provide care for clients at home in many ways, ranging from the practical – housework, cooking meals and collecting pensions – to providing that vital emotional link with the outside world – simple companionship.

Nestor's acquisition of the Goldsborough homecare businesses from BUPA has ensured its leading position in the homecare market, while its successful operation of the UK's first outsourced homecare service for Brent Social Services positions it well for future outsourcings of the same type.

The Group welcomes the new Care Standards Act which will bring recognition to the care worker profession and ensure that all organisations adhere to the high professional standards Nestor has always upheld. It already has plans to train 8,000 care workers to NVQ2 level, ahead of legislation, within two years.

The Group's geographic spread means it can respond swiftly to the increasing need for high quality, well-managed and cost-effective homecare. However, above all, the business rests on the quality of its staff – dedicated people working long hours at short notice. Because quality only happens when people care enough about what they do.

Healthcare Personnel Division

Delivering high quality healthcare professionals to the health and social care market

The Healthcare Personnel Division comprises businesses focused on providing healthcare professionals for temporary and permanent placements to clients including the NHS, Local Authorities, nursing homes and other institutions.

British Nursing Association

The UK's leading nursing and care agency, with over 160 branches nation-wide

2001 was an exciting year for British Nursing Association, which grew its turnover by 15% to £210.8m, with improved margins, through a combination of organic growth and acquisitions.

A major focus during the year was the acquisition and integration of the Goldsborough businesses, acquired from BUPA in April. By the end of August, all 78 of their branches had been absorbed into the BNA network, with a net increase of only 10 branches. These businesses focus mainly on the fast-growing homecare sector, which has been identified as a key target market for BNA's future development. The integration was achieved with almost no attrition but had some negative impact on the organic growth of BNA's core business in the branches affected, as management focused on securing Goldsborough's business during the integration stage.

Contracts remain a major part of BNA's business, with 54% of its volume held under contract with NHS Trusts and Social Services Departments. It continued to focus on winning and renewing contracts at improved margins, with both its NHS and Social Services clients. In June, BNA began providing homecare services to the London Borough of Ealing's Social Services Department, under a five-year contract worth approximately £5m per annum. It also won or renewed over £25m worth of contracts with NHS clients, a figure that is particularly pleasing given the current uncertainty in that sector due to the planned roll-out of NHS Professionals.

BNA also grew its turnover with industry and institutional clients but reduced its exposure to the nursing home sector, which continued to suffer from a number of insolvencies.

The contract pipeline remains strong, especially in homecare, where a number of Local Authority outsourcing opportunities are expected to arise during the second half of 2002.

The recruitment of nurses and carers was also an area of focus. BNA now has over 130,000 members on its register, with over 78,000 having worked in the last 12 months. It also strengthened its pool of healthcare professionals by training more than 6,000 care assistants, in order to help meet the excess of demand for staff still encountered at every branch. In 2002, it plans to build further on its expertise in training care assistants and in helping qualified nurses to return to work with the development of Nestor Academy, a dedicated training service designed to help BNA's workforce to meet the training requirements of future legislation.

BNA is well positioned to take advantage of the opportunities that will arise from the implementation of the Care Standards Act, as it already operates to many of the standards proposed under it. Nestor Academy will act as a further differentiator for BNA in the marketplace, ensuring the quality of the care provided by its workforce and attracting additional care assistants, who need to achieve the necessary qualifications in order to continue to work in the social care market. BNA is also well positioned to support the activities of NHS Professionals as it is rolled out across the country, with high-quality professional agency support to its bank-management operations.

Grosvenor Group

Concentrating on specialist nursing and care

Grosvenor's turnover in 2001 increased sharply by 76% to £79.3m, reflecting strong underlying growth, supplemented by the full-year effect of the acquisition of LPNS in October 2000. Its branch network now extends to 29 locations across the south of England, an increase of five over the previous year. However, overall margins were affected by the dilutive effect of LPNS' contract business.

Grosvenor enhanced its already strong reputation for providing mental health nurses in London by winning a three-year contract to supply nurses to the South London and Maudesley Mental Health NHS Trust, generating approximately £6m of turnover per annum. Approximately 65% of Grosvenor's total turnover is secured under contract, although LPNS felt some impact from the roll-out of NHS Professionals, as a number of its bank-management contracts came to an end toward the end of the year.

During the year, Grosvenor worked hard to expand the number of healthcare professionals available for work and increased its membership by 19% to 25,000 active members. Its nurse agency businesses were also awarded preferred supplier status under the London Agency Project, covering 64 London NHS Trusts.

In 2002, Grosvenor will continue to focus on satisfying the ever-increasing demand for specialist nurses and on developing its higher-margin agency businesses.

Carewatch

The UK's leading franchised domiciliary care provider

Carewatch had another very successful year, increasing its branch network by 14 to 113. Its turnover grew 89% to £5.3m, reflecting significant growth in the number of hours of care delivered by franchisees. Its company-owned branches and franchisees won new contracts with 24 Local Authorities to provide homecare, so that by the end of the year, its network was delivering over 92,000 hours of care every week, equivalent to £40m of aggregated turnover per annum.

Following the acquisition of the remaining 49% of its shares by the Group, Carewatch will focus in 2002 on continuing to grow its network and support its franchisees in meeting the quality requirements of the Care Standards Act.

Medic Group

Supplier of medical locums and professionals allied to medicine

Medic had another encouraging year, growing turnover to £8.3m and significantly improving its margins.

In 2002, it plans to continue to focus on higher-margin placements of specialist healthcare professionals. It will also focus on recruiting English-speaking healthcare workers from selected countries to help satisfy the UK's ever-growing demand.

Healthcare Services Division

Focus on GP Out-of-Hours Services

When Healthcall joined Nestor's already powerful range of healthcare services, the Healthcare Services Division became the UK's leading provider of GP and other out-of-hours services to the NHS.

GPs and their governing bodies, Primary Care Trusts (PCTs), have a responsibility to provide 24 hour access to primary care; some 10,500 GPs, representing around a quarter of the British population, choose to use Nestor.

The service handled some six million calls in 2001 in its clinical response centres. Each of these centres is responsible for ensuring that every caller receives the appropriate service: either clinical advice from a doctor or nurse over the telephone, a face-to-face consultation in one of the national network of 123 primary care centres, or a home visit. A key element of the Division's service provision is to work with other providers of health and social care including hospitals, district nursing teams, Social Services and the Ambulance Service.

Increasingly, the service extends beyond traditional out-of-hours care. The Division is now working with PCTs to use the network during the daytime to provide care to patients who do not have a GP or who require additional medical support in intermediate care schemes. It supports a number of ambulance services by providing a rapid doctor response to emergency calls, thus preventing unnecessary admissions to hard-pressed Accident and Emergency departments.

These services draw on over 40 years experience in primary care and represent true value for money – Nestor's new service level agreement is already the preferred model for many PCTs.

Healthcare Services Division

Delivering innovative and cost-effective solutions to the UK's growing healthcare market

The Healthcare Services Division delivers a range of managed healthcare services to the NHS, Government bodies, Local Authorities, private companies and individuals. It draws on the Group's unique capability to offer solutions that provide quality and cost benefits to both purchasers and end-users.

The Division is sub-divided into two management groups – Primary Care and Government Contracts.

Primary Care

Out-of-Hours GP Services

The largest provider of out-of-hours services to GPs in the UK

The Group's Primary Care Out-of-Hours business was created from the merger of Healthcall's Medical Division with Nestor's own Medical Duty Services (NMDS) to achieve a turnover in the year of £26.7m. On a proforma basis, its combined turnover in 2001 was £58m.

The business now provides out-of-hours services to more than 10,000 GPs, covering some 25% of the population. As a result of the integration of Healthcall's business, the geographical reach of the business now extends to all parts of England, Scotland and Wales and in the year it took some six million telephone calls, resulting in some two million clinical consultations.

The service is operated from a nation-wide network of call centres, which handle patient calls, and from 123 primary care centres, often co-located within GP surgeries, Accident and Emergency departments or minor injury units, where patients needing face-to-face medical attention can consult a clinician. It also offers home visits by clinicians to patients who are unable to visit a primary care centre.

The business continued to focus on ensuring the quality of service delivered to its users, GPs and primary care organisations and to their patients. The Group worked to ensure compliance with the Carson recommendations on the provision of out-of-hours services that contain rigorous performance standards for all providers and is due to be implemented in the course of 2002. It also worked closely with the Department of Health to ensure this process successfully results in improved patient care.

All of the service's call centres are linked with NHS Direct and one was chosen as an NHS 'Exemplar' site for the trialling of best practice links with NHS Direct.

Primecare

Providing complex healthcare-at-home services

2001 saw the continuation of Primecare's rapid development, with 150% growth in turnover to £2.6m and continued profitability.

With its rapid response and hospital aftercare programmes, Primecare helps the NHS to prevent patients being unnecessarily admitted to hospital and to be safely discharged to independent living. Both these services were independently evaluated during the year and were shown to provide excellent care, predominantly for older people and value-for-money for the NHS.

Primecare also continued to pioneer new services, such as support for people with chronic obstructive pulmonary disease and home chemotherapy. Both these services allow people to be cared for safely at home and rely less on expensive GP and hospital services.

Healthwatch

Providing personal healthcare services through leading-edge telecare technology

During the year, Healthwatch achieved its first revenues and contracts. It now offers exciting opportunities for growth as the NHS, Social Services and individuals begin to consider innovative and cost-effective ways of providing healthcare services in the 21st Century. In particular, through its electronic health record and vital signs monitoring, using the 24 hour a day, 7 day a week

clinical monitoring centre, Healthwatch offers access to high quality clinical advice whenever people want or need it. It also enables healthcare professionals to manage a larger caseload safely and more effectively, a factor that is increasingly important as the shortage of suitably-qualified clinicians becomes ever more acute.

Government contracts

Forensic Medical Services (FMS)

The leading UK provider of primary care services to Police Authorities and secure establishments

FMS now combines Nestor's business providing healthcare services in secure establishments with the business operated by Healthcall, providing forensic services to police authorities.

FMS had another successful year in 2001; the integration of the two businesses was completed by October and new contracts were won in both sectors. Its turnover grew by 56% to £7.8m, and FMS now provides a wide range of healthcare services to 21 prisons and secure units and to three Police Authorities.

FMS continued to work in close partnership with Group 4 Falck, providing healthcare to a variety of secure establishments – prisons, immigration detention centres and secure training centres for young offenders. In 2001, FMS helped to open the new immigration centre at Yarl's Wood and provided healthcare services to HMP New Hall, Styal and Rye Hill.

It now provides forensic medical examiners to three Police Authorities in the UK and during the year handled over 73,000 calls from Police custody officers. In October, it won the Hampshire police contract that also includes the provision of driver medicals.

Nestor Disability Analysis (NDA)

Provides Doctors for domiciliary screenings or temporary support to the Benefits Agency Medical Services for the Department of Work and Pensions

NDA's turnover in 2001 was up 9% to £33.0m, reflecting the increased number of assessments required by the Department of Work and Pensions. The contract has been extended by a further two years until 2005, subject to final ministerial ratification in May.

In 2002, NDA is working with SchlumbergerSema to streamline processes for the recruitment, training and scheduling of doctors, in order to deliver a more efficient service to the Department.

Medical Assessment Process (MAP)

The largest industrial compensation scheme in the world undertaken under contract to the DTI

The MAP is the result of a class action brought against the Government on behalf of former coalminers suffering from lung disease. A contract to assess the medical condition of approximately 75,000 claimants was awarded to Healthcall in November 1999. It involves the collection and scanning of medical records from a number of sources, undertaken by a sub-contractor and a medical assessment by a consultant respiratory specialist.

The business undertakes assessments of claimants at 29 centres in mining communities in England, Scotland and Wales.

To date, the business has undertaken over 61,000 assessments and the number of examinations anticipated by the contract will be completed six months ahead of schedule by May this year. Total turnover in 2001 from the contract was £43.0m and its contribution to the Group's turnover from acquisitions was £17.6m.

The DTI has recently intimated that it intends to re-tender the contract for a further three years from the date of its expiry in November 2002, as the total number of claimants (currently approximately 175,000) seems likely to reach nearly three times the original estimate. Nestor is hopeful that the record of service delivery and quality on the existing contract will help to secure the contract for a further three to five years.

David Lyon
Group Finance Director

Group turnover was up by 37% and operating profit margins increased to 6.4% overall, while cash flow was again strong.

Financial Review

Group performance

Turnover

Turnover for the Group increased by 37% to £401.0m (2000: £292.8m). Identifiable turnover of the businesses acquired during the year since acquisition amounted to £57.4m, including the Goldsborough businesses of £17.7m.

In Healthcare Personnel, turnover increased by 26% to £308.8m (2000: £245.4m), reflecting organic growth, together with the effects of the acquisition of the Goldsborough businesses in April 2001, the Healthcare Personnel businesses of Healthcall acquired in September 2001, and the incorporation of a full year's results from LPNS, acquired in October 2000.

In Healthcare Services, turnover increased by 94% to £92.1m (2000: £47.4m), reflecting underlying growth of approximately 15%, together with the effects of the acquisition of Healthcall in September 2001.

Operating profit and margins

The Group's operating profit before goodwill amortisation and exceptional items was up 39% to £25.5m (2000: £18.3m). Operating profit from existing operations increased by 8% to £19.8m. This included the effect of the Goldsborough businesses which were completely rolled into BNA, and also the effect of the increased investment in new businesses and central management infrastructure.

The Group's operating profit margin before goodwill amortisation and exceptional items increased to 6.4% (2000: 6.3%).

Operating profit before goodwill amortisation and exceptional items from Healthcare Personnel was up 25% to £20.0m (2000: £16.0m).

The operating margin of Healthcare Personnel remained unchanged at 6.5% (2000: 6.5%). The dilutive effect of LPNS, which concentrates on lower margin NHS contracts, was offset by improvements elsewhere in the Division. Excluding LPNS, the operating margin was 6.9%.

Operating profit before goodwill amortisation and exceptional items from Healthcare Services was up 139% to £5.5m (2000: £2.3m). Investment in the Group's health monitoring businesses amounted to £1.6m (2000: £0.6m) and this restricted the growth in operating profit in this division. Nonetheless, the net margins achieved in the division increased significantly, mainly because of the effect on margins of the Healthcall acquisition.

In Healthcare Services, the operating margin increased to 6.0% (2000: 4.9%), as organic growth and the Healthcall acquisition meant that the proportion of turnover derived from the low margin, high volume Benefits Agency contract declined. An increased investment in the Group's health monitoring businesses had the effect of restraining margin growth in the Division.

Exceptional costs

Following the acquisitions of the Goldsborough businesses and Healthcall, the decision was taken to restructure the acquired businesses and integrate them with the Group's existing businesses. The costs of the restructuring and integration amounted to £3.7m. Given the size and one-off nature of these costs, they have been shown on the face of the profit and loss account as part of exceptional items. These costs comprise redundancy costs of £1.2m; temporary staff, consultants and one-off management bonuses amounting to £1.2m; property withdrawal costs of £0.6m; IT integration costs of £0.5m; and other costs of £0.2m. A tax credit of £1.0m has been recorded in respect of these exceptional costs.

An exceptional charge of £0.9m has been included in the profit and loss account to reflect the estimated impairment of the Group's 51% interest in Hertford Medical International, the specialist cardiac monitoring business. Following acquisition in 2000, the business has performed below expectations and a review of the carrying value of the associated fixed assets and goodwill has been undertaken. As a result of this review, it has been determined that the assets and goodwill have been impaired by £0.9m. There is no tax credit associated with this exceptional charge.

Pre-tax profit

Profit before tax, exceptional items and goodwill amortisation amounted to £23.9m, up 27% on last year's £18.8m.

Goodwill amortisation during the year amounted to £3.8m (2000: £1.2m), with £2.0m arising from businesses acquired during the year.

Net interest payable was £1.5m (2000: receivable of £0.4m), reflecting the borrowings taken on at the time of the acquisition of Healthcall in September 2001.

Taxation

The tax charge for the year was £6.0m (2000: £5.2m). The average tax rate on profit, before goodwill amortisation and exceptional items, at 29% reflected adjustments to prior years' taxation liabilities, but was still higher than last year's 28% because of the tax relief available in 2000 on contributions to the Employee Share Ownership Trust established during that year.

Earnings per share

The basic adjusted earnings per share, before exceptional items and goodwill amortisation was 20.54p (2000: 17.10p) an increase of 20%.This reflects the increase in pre-tax profit offset by the higher average tax rate and the higher average number of shares in issue, following the acquisition of Healthcall. The diluted adjusted earnings per share was 20.34p (2000: 16.91p). This figure takes into account the dilutive effect of share options outstanding at the year-end. The FRS 3 earnings per share (which is after taking account of goodwill amortisation and exceptional items) was 11.55p (2000: 14.63p).

Cash flow

Cash flow from operations, before exceptional restructuring payments of £2.2m, amounted to £24.6m, an increase of £0.9m on the previous year.

Net cash outflow for the year was £12.2m (2000: inflow of £1.8m). Excluding the net effect of acquisitions and sale of businesses and the net cash flow from financing, there was a £4.8m net cash inflow (2000: £13.5m).

Net capital expenditure was £4.5m (2000: £2.4m) and consists mainly of the refurbishment of the Group's main premises, purchase of motor vehicles for staff and the investment in systems hardware and software to support the business.

Dividends, interest and corporation tax amounted to a net payment of £13.1m (2000: £7.9m).

The issue of shares, mainly in connection with the acquisition of Healthcall, raised a net £38.3m (2000: £0.3m) whilst the net increase in borrowings accounted for £69.7m (2000: outflow of £0.1m).

Equity shareholders' funds

Equity shareholders' funds increased from £52.5m in 2000 to £93.3m, an increase of £40.8m, reflecting retained profit of £2.5m and the proceeds from the issue of new shares of £39.0m less the associated costs of £0.7m.

Acquisitions

Five new businesses were acquired during the year for an aggregate purchase consideration of £122.3m plus costs of £4.7m. The aggregate of purchase consideration and costs for the acquisition of Healthcall was £113.0m and for the Goldsborough businesses was £11.1m.

The aggregate purchase consideration paid in the year, including the costs of acquisition less net cash acquired, was £124.9m. This included £3.2m paid in settlement of the deferred consideration for Forensic Medical Services acquired in 1999. Net payments in respect of the acquisition of Healthcall amounted to £110.4m. Estimated deferred consideration of £4.0m and expenses of £0.9m in respect of the year's acquisitions remained to be paid at the year-end.

Group financial and operational controls have continued to be strengthened. Procedures to monitor and manage key risks have been used throughout the year and further enhanced.

Financial Review continued

Goodwill arising on the year's acquisitions amounted to £125.7m. In determining goodwill, fair value adjustments were made to the book values of acquired assets and liabilities, which had the effect of reducing net assets, by £6.0m. In line with FRS10, the Group's policy has been to capitalise goodwill on acquisitions made since 1998 and to amortise over their useful lives, all of which have been estimated at 20 years.

Pensions

In accordance with FRS17, Retirements Benefits, the Group is required to compare the market value of its pension funds' assets at the year end with the actuarial liabilities of the funds. At 31 December 2001, the pension funds' assets amounted to £16.5m compared to liabilities of £22.2m, a net deficit of £5.7m. In accordance with the transitional arrangements of FRS17, the deficit has not been recognised on the balance sheet. This technical valuation will have no impact on the financial statements in 2002.

Treasury management and financial instruments

Financial instruments include all assets and liabilities of a financial nature such as cash, loans, finance leases, overdrafts and long-term liabilities.

All such instruments play an important part in the operations of the company to enable it to operate smoothly and efficiently and to pay its obligations as they fall due. They also enable the company to fulfil its investment strategy, including making appropriate acquisitions.

The company's objective is to use financial instruments to minimise the cost of capital at an acceptably low financial risk and to maximise flexibility to take advantage of investment and acquisition opportunities as they arise.

The Group is primarily a UK Healthcare business and does not have significant exposure to foreign exchange risks. Nevertheless the Group's strategy is to hedge its foreign exchange exposure, where it arises, with foreign currency loans or forward exchange contracts as appropriate.

The main risks arising from the Group's financial instruments are interest rate and liquidity risks. The Board considers each of these risks on a regular basis and the Group's stance towards each of these risks has remained unchanged.

During the year, the Group put in place £95.0m of borrowing facilities committed for five years at a margin of 0.75% above LIBOR and due for repayment in 2006. In addition, uncommitted overdraft facilities of £15.0m were made available. At the end of the year, the Group had borrowings less cash of £75.4m (2000: net cash of £8.9m) and undrawn committed borrowing facilities of £20.4m. It is, and has been throughout the year, the Group's policy that no trading in financial instruments will be undertaken.

In addition to the borrowing facilities that were put in place, the Group raised a net £38.3m from a placing of shares in connection with the acquisition of Healthcall and exercise of employee share options.

Controls

Financial and operational controls have continued to be strengthened across the Group. The procedures to monitor and manage key risks have been used throughout the year and enhanced further. The Group's internal audit function, which is outsourced to Deloitte & Touche, continues to play a key role in this process.

David Lyon, Group Finance Director
4th March 2002

Every employee is a member of our leadership group, since delivering excellence is the responsibility of everyone involved. To ensure this, we have invested significantly in establishing Nestor Academy.

Employees, Social Responsibility and Clinical Governance

Leadership development

The Government has stated that the training and development of the care workforce is essential to the future effectiveness of health and social care in the UK. This mirrors Nestor's own philosophy and strategic focus. The development of the Company's leadership group is essential in achieving its aim to be a leading and valued partner in UK health and social care.

Nestor recognises every employee as a member of that leadership group, since the delivery of an excellent quality of service is the responsibility of everyone involved in the organisation.

To ensure this, significant investment has taken place in the year in the establishment of Nestor Academy. This business is charged with training and developing all staff, not only the Group's existing employees but also by providing its ever-growing member population with the opportunity to achieve the qualifications increasingly required by Government initiatives, such as the Care Standards Act.

Employee involvement

The Group believes that involving its employees in all aspects of its business, particularly the economic and financial factors affecting the Group's performance is crucial to its future success. It is always seeking ways to improve communication across its businesses, both between its central and operational functions and between the various operations themselves.

Consultative arrangements with elected representatives of employees already exist in some parts of the business and it is intended to roll these out further during 2002.

In addition it is also the Company's policy to allow employees to participate in its success, through a variety of performance-related incentive arrangements, including the provision of savings-related share option schemes.

Finally, internal circulars and newsletters are issued regularly, increasingly through the use of new media to reach our employees faster and more effectively.

Health and safety

The Board is aware of its responsibilities towards its employees and all users of the Group's services in health and safety matters. It recognises its ultimate responsibility for the setting and monitoring of appropriate policies, guidelines and practices in the formal Schedule of Matters Reserved for the Board's consideration. During the year, the Group's Health and Safety Committee, whose membership includes executive directors and the Company Secretary, met regularly to set its health and safety strategy, to monitor the Group's compliance with health and safety legislation, and best practice, and to consider the implementation of measures to improve further the Group's health and safety reporting procedures. This committee reports semi-annually to the Board on its activities.

Each of the Group's two Divisions has established a health and safety committee which met regularly during the year to monitor the implementation of the Group's health and safety strategy across the businesses for which they are responsible. The membership of each includes representatives from the Group's Health and Safety Committee, along with managers and HR professionals from the various operating companies in the Divisions. In 2002, they will work closely with Nestor Academy in order to ensure that employees and staff receive further appropriate training in health and safety matters.

Charity of the Year

As part of its commitment to UK health and social care, the Group asks many of its branches every year to vote for the organisation or charity that they would like to support as Charity of the Year.

Employees, Social Responsibility and Clinical Governance continued

Throughout 2001, the Group supported fundraising activities on behalf of Macmillan Cancer Relief. Macmillan Cancer Relief is a UK charity supporting people with cancer and their families with specialist information, treatment and care.

The Group is always looking for new ways in which to involve its employees in the communities in which they are based. A number of successful programmes were run throughout 2001, ranging from dress-down days to sponsored runs. It also initiated a number of projects which are intended to benefit the environment as well as raise funds for charitable causes, such as re-cycling used toner cartridges. Throughout the UK, the Group's branches regularly support charities pertinent to their own locality or business sector, as well as the Charity of the Year.

Environmental policy

As a service-based organisation, with no manufacturing and limited transportation facilities, the Group's exposure to environmental risk is limited, as is its ability to control the environmental impact of its activities.

However, the Group and its operating companies are committed to following the best environmental practices in the day-to-day conduct of their businesses and management of their resources and facilities. During the year, the Group continued to refine the environmental policy adopted by the Board in 2000 and began to roll it out to all newly-acquired Group businesses. The policy, which is directed at minimising the potential impact of the Group's operations on the environment, provides that the Board retains ultimate responsibility for setting and monitoring its policy on environmental matters.

The policy provides for the promotion of an understanding of environmental consideration across the Group and all managers are directed to encourage staff to follow the good practice outlined in the policy at all times.

The aims of the Group's environmental policy are;

- to take all practical steps to ensure that the Group's business activities have the minimum negative impact on the environment,
- to achieve the most economic use and careful use of sources of fuel and energy,
- to minimise the production of waste,
- to make the maximum practical use of recycling.

The policy also provides that the Board is ultimately responsible for ensuring that the obligations imposed by all current and future environmental legislation are met.

Day-to-day responsibility for the co-ordination of the policy across the Group rests with the Director of Human Resources.

Specialist advisors are appointed by the Director of Human Resources, as required, to ensure that best practice is followed, that the Group is aware of potential opportunities to improve performance and that all legislative and statutory requirements are met.

The directors of the Group's operating companies are responsible for ensuring compliance with the policy. Where appropriate, departmental representatives or co-ordinators have been appointed to act as advisors and focal points for the dissemination of information and the promotion of initiatives to improve the immediate environment, reducing waste and ensuring that the objectives of the policy are met.

Ethical matters

The Board has adopted a formal Code of Business Conduct, covering all of the businesses in the Group, which consolidated all of the various codes previously applicable to them. During the year, this Code was also rolled out to all newly-acquired businesses. The Code provides comprehensive guidelines to all employees and workers as to the standard of business ethics expected from them as representatives of the Group. It also recognises the importance to the Group of operating to the highest possible ethical standards, bearing in mind the nature of the services offered by Group companies and the needs of their clients.

All senior managers are required to declare, on an annual basis, any hospitality received during the year in their capacity as an employee of the Group and to disclose any interests they may have in connected or competing organisations. These declarations are monitored by the Company Secretary and reported to the Board at the end of each year.

Clinical governance

During the year the Group has strengthened its commitment to clinical governance with the appointment of an Executive Medical Director with responsibility for the promotion of best clinical practice across the Group's activities. He is advised by a number of independent senior clinicians, including the members of the Group's National Clinical Governance Advisory Board, whose membership and terms of reference continue to develop to reflect its widening clinical activities.

Board of Directors

Antony Beevor
Non-executive Chairman
(61), was appointed non-executive Chairman in January 2002, having served as a non-executive director since October 2000. Previously, he was head of Corporate Finance at Hambros and, from 1988-90, Director General at the Panel of Takeovers and Mergers. He is now also Chairman of Croda International Plc, a Deputy Chairman of the Takeover Panel, a Senior Advisor in the Corporate Finance Division of SG (Société Générale) in London and a non-executive director of Helical Bar plc.

He is a member of the Board's Audit and Remuneration Committees.

Justin Jewitt
Chief Executive
(47), was appointed to the Board in July 1996 and as Chief Executive in January 1998. He joined the Group in May 1994 as Managing Director of BNA, its largest subsidiary. Previously, he was Managing Director of two BET businesses, prior to which he worked for Mobil Oil and Thorn-EMI. He is an External Professor of the University of Glamorgan and Chairman of its Health Industry Advisory Group.

David Lyon
Group Finance Director
(40), was appointed to the Board in January 1998 as Group Finance Director. A chartered accountant, he joined the Company in 1991 as Group Financial Controller, prior to which he held positions in Ernst & Whinney, Price Waterhouse and Whitbread plc.

Robbie Burns
Executive Director
(50), was appointed to the Board in January 2002 as Managing Director, Government Contracts in the Healthcare Services Division. He joined the Group in September 2001 on the acquisition of the Healthcall Group, where he was Group Managing Director. He has many years experience in the healthcare industry, having previously held a number of senior positions in BUPA before joining Healthcall in 1999.

Stephen Page
Executive Director
(39), joined the Group in November 2000 as Managing Director, Healthcare Services Division and was appointed to the Board in March 2001. He has specific responsibility for the Primary Care businesses in this division. Previously, he was Managing Director at Priory Healthcare Group plc between 1998 and 2000. Between 1993 and 1998 he was Chief Executive Officer of Oxleas NHS Trust, the NHS provider of community and mental health services to the London Boroughs of Greenwich, Bexley and Bromley. He has an MBA from the London Business School.

Dr William Holmes
Executive Director
(47), was appointed to the Board as a non-executive director in January 2000 and as the Group's Executive Medical Director in October 2001. His executive responsibilities include the development and monitoring of clinical standards and providing clinical governance across the Group. He is a Fellow of the Royal College of Physicians of London and a Fellow of the Royal College of General Practitioners. In addition to his corporate responsibilities, he continues to undertake regular clinical sessions in general practice and occupational medicine.

Emma Thomas
Company Secretary

Ingrid Alexander, CBE

Non-executive Director

(50), was appointed to the Board in August 2001. An independent management consultant, she is currently the Chair of the Central Council for Education and Training in Social Work (Residuary Body). She is a former member of the General Social Care Council Advisory Group and the Strategy Group for the NHS Chief Executive's leadership programme and has worked widely with a number of other organisations in the health and social care field. Previously, she was Assistant Director for Resources at Birmingham City Council.

She is a member of the Board's Audit and Remuneration Committees.

Tim Harris, CBE

Non-executive Director

(54), was appointed to the Board in January 2002. Prior to his retirement in 2000, he was Chief Executive Officer of the Anglo-Dutch Nedlloyd and was assistant Managing Director of P&O, where he was responsible for creating and developing its cruise line and oversaw the merger of its container business with Nedlloyd. He is also Chairman of James Fisher & Son plc.

He is a member of the Board's Audit and Remuneration Committees.

David Howell

Non-executive Director

(52), was appointed to the Board in August 1999. He is a chartered accountant and Chief Financial Officer and Executive Director of lastminute.com plc. From 1997 to 2001 he was Group Finance Director of First Choice Holidays PLC and was previously Group Finance Director at Central Transport Rental Group PLC and Chief Executive Officer at GN Comtext Ltd, a major subsidiary of GN Great Nordic Ltd.

He is Chairman of the Board's Audit Committee and is a member of its Remuneration Committee.

Robert Nicholls, CBE

Non-executive Director

(62), was appointed to the Board in 1997. Formerly a senior NHS manager, he is now an independent healthcare management consultant, lay member of the GMC and an associate consultant on health management for the British Council. He sits on the Resolve Advisory Board and the Clinical Education Board of Oxford Medical School.

He is the senior non-executive director and, since January 2001, Chairman of the Remuneration Committee. He is also a member of the Board's Audit Committee.

Directors' Report

The directors are pleased to present their report and the audited financial statements for the year ended 31st December 2001.

Principal activities, results and future developments
Nestor Healthcare Group plc is the holding company of a group of companies in the healthcare sector. Its principal activities are:

- the provision of nurses and carers, locum doctors and other medical personnel;
- the provision of out-of-hours doctors' deputising services through the largest independent network of out-of-hours GP services in the UK;
- the provision of medical assessment services to the DTI under two contracts related to the Government's compensation programme for coalminers with COPD;
- the provision of homecare personnel through a network of franchise branches across the UK;
- the provision of healthcare and related services to Police Authorities and secure institutions;
- the provision of medical staff to the Benefits Agency Medical Services;
- the provision of remote healthcare monitoring services; and
- the provision of nurse-led disease management services.

The Chairman's Statement, Operating and Financial Reviews on pages 4 to 21 provide a report on the Group's activities, trading results and future developments.

Results and dividends
The profit attributable to shareholders was £9,479,000 (2000: £11,474,000). An interim dividend of 2.90 pence per ordinary share was paid to shareholders on 19th October 2001. The directors now recommend a final dividend of 5.12 pence per ordinary share, to be paid to shareholders on 24th May 2002. Following payment of all dividends for the year, totalling 8.02 pence, the surplus of £2,483,000 will be transferred to the Group's reserves.

Directors
The directors who served during the year were D G Heywood, J A S Jewitt, D O Lyon, M D R Horgan, S R Page, R M Nicholls, A Parker, D Howell, W F Holmes, A R Beevor and I C Alexander.

S R Page was appointed to the Board on 2nd March 2001 and A Parker retired on 31st March 2001, in order to take up the position of Chair of the National Care Standards Commission on 1st April 2001.

I C Alexander was appointed as an independent non-executive director on 13th August 2001 and D G Heywood retired from the Board as non-executive Chairman on 31st December 2001. He was succeeded as non-executive Chairman by A R Beevor.

R I Burns was appointed to the Board on 1st January 2002 as an executive director and T C Harris was appointed as an additional independent non-executive director on the same date.

In accordance with the Articles of Association, I C Alexander, R I Burns and T C Harris will retire at the Annual General Meeting and, being eligible, will offer themselves for re-election. J A S Jewitt will retire by rotation and, being eligible, will offer himself for re-election.

I C Alexander and T C Harris hold office by virtue of a letter of appointment, providing for a term of office expiring three years from the date of their appointment. R I Burns has a service agreement with a subsidiary of the Company that is subject to twelve months' notice of termination. J A S Jewitt has a service agreement with the Company that is subject to twelve months' notice of termination (except in the case of a change of control of the company when twenty four months' notice is required from the Company).

Directors' interests
All directors' interests, including details of shareholdings, are set out in the Remuneration Report of the Board on pages 31 to 34

Substantial shareholdings
At 22nd March 2002 the Company has been notified of the following material interests of 3% or more and non-material interests of 10% or more in its ordinary share capital:

	Number	Percentage of issued share capital
Fidelity International Limited	7,887,915	9.06%
Scottish Widows Investment Partnership Limited	5,444,355	6.25%
Prudential plc and The Prudential Assurance Company Limited	3,424,000	3.93%
AEGON UK plc	2,763,800	3.17%

Share capital
Details of the authorised and issued share capital of the Company during the year ended 31st December 2001 are given at Note 23 to the financial statements.

Annual General Meeting – special business

The Annual General Meeting of the Company will take place at The Brewery, Chiswell Street, London EC1Y 4SD on Tuesday 14th May 2001 at 12.30 pm. The notice of the Annual General Meeting may be found in the Notice of Meeting accompanying this Report. In addition to the routine business of the meeting, the following special business will be transacted:

- Directors' authority to issue shares (Resolution 8)
  The Companies Act 1985 ("the Act"), prevents directors from allotting unissued securities without the authority of shareholders. In certain circumstances this could be unduly restrictive. The proposed resolution will give the directors a general authority to issue shares of the Company for cash, within certain constraints, without complying with the statutory pre-emption procedures. The total number of relevant shares that the directors will have the authority to allot will be 8,093,223 ordinary shares of 10p each (representing 10.22% of the share capital currently in issue). The directors have no present intention to exercise this authority (except in relation to the allotment of shares under the Group's share option schemes). The authority in Resolution 9 will expire at the conclusion of the next Annual General Meeting or on 14th August 2003, whichever is the earlier.

- Restricted disapplication of pre-emption rights (Resolution 9)
  The proposed special resolution will give the directors a limited authority to issue equity shares for cash other than to existing shareholders in proportion to their existing shareholdings notwithstanding the pre-emption provisions of Section 89 of the Act. This limited authority would allow the directors to make such issues provided they do not exceed in aggregate an amount equal to 5% of the issued share capital of the Company. The resolution also contains provisions enabling the directors to take action to overcome certain practical difficulties that could arise in the case of a rights issue. The authority in Resolution 10 will expire on the conclusion of the next Annual General Meeting or on 14th August 2003, whichever is the earlier.

- Purchase by the Company of its own shares (Resolution 10)
  The directors consider that it would be advantageous for the Company to renew for a further year the existing authority granted at last year's Annual General Meeting, to allow the use of the Company's available cash resources to acquire its own shares in the market for cancellation. This authority is granted pursuant to Section 162 of the Act.

  Accordingly, a special resolution is proposed to authorise the purchase in the market of up to 10% of the issued ordinary shares of the Company at a price of not more than 105% of the average of the middle market quotations for the ordinary shares of the Company (as derived from the London Stock Exchange Daily Official List) for the ten business days prior to the date of purchase.

  The directors do not intend to exercise the Company's power to purchase its own shares other than in circumstances where they consider this to be in the shareholders' interests and where this would result in an increase in earnings per share. They have no present intention to exercise this authority.

- Approval of Remuneration Report (Resolution 11)
  The directors are aware of the DTI's proposal to require companies to put the Remuneration Report of their Board to the vote at Annual General Meetings. Whilst this proposal is still at the draft stage, the directors are happy to adopt the DTI's recommendation and, accordingly, the proposed resolution invites shareholders to approve the content of the Directors' Remuneration Report for the year ended 31st December 2001.

- Introduction of a new Long-Term Incentive Plan for a limited number of senior executives (Resolution 12).
  The proposed resolution invites shareholders to adopt a new long-term incentive share plan for certain senior executives, which is designed to reward exceptional performance by the Company in future years.

- Introduction of a new Share Option Plan (Resolution 13)
  The proposed resolution invites shareholders to approve a new Share Option Plan to replace the Group's existing share option arrangements. The exercise of all options will be subject to the achievement of performance conditions. In addition, for option grants made to certain senior executives, exercise of options will be conditional on the achievement of more demanding conditions, including one based on a sliding scale of total shareholder return against the companies in the FTSE 250 Index.

- Introduction of an employee trust (Resolution 14)
  The proposed resolution invites shareholders to approve the establishment of a new employee trust which will be used in conjunction with the new share incentive arrangements outlined above. The maximum number of shares that may be held within the trust is limited to 5% of the issued share capital of the Company.

  Further details of each of Resolutions 12, 13 and 14 are contained in the accompanying circular to shareholders.

  The Board believes that these resolutions will enable the Company to continue to offer effective share-based incentives that will attract, retain and motivate key employees.

Directors' Report continued

Charitable and political donations

No political donations were made during the year. Charitable donations of £1,850 were made in 2001 (2000: £13,500).

Taxation status

The Company is not a close company within the meaning of the Income and Corporation Taxes Act 1988.

Disabled employees

It is the Group's policy that disabled persons should be considered for employment, training, career development and promotion on the basis of their abilities and aptitudes in common with all employees.

The Group applies employment policies that are fair and equitable for all employees and which ensure entry into and progression within the Group are determined solely by application of job criteria and personal ability and competency.

Full and fair consideration (having regard to the person's particular aptitudes and abilities) is given to applications for employment and the career development of disabled persons.

Employee involvement

The Group attaches considerable importance to ensuring that all its staff are provided with information concerning them as employees, particularly the economic and financial factors affecting the Group's performance and the market in which the Group operates. Involvement of employees in the Group's performance is also encouraged by the availability of performance-related bonuses as well as share option schemes, which are described in more detail elsewhere in this report.

Internal circulars and newsletters are issued regularly and consultation between management and staff is an ongoing process. Employees are consulted on issues directly affecting them wherever practicable.

Creditor payment policy

It is the Group's policy to have appropriate terms and conditions for transactions with suppliers, ranging from standard terms and conditions to those which have been specifically negotiated, and that in the absence of dispute, payment will be made in accordance with those terms and conditions and conforming to the CBI Code of Best Practice; copies are available from the CBI at Centrepoint, 103 New Oxford Street, London.

The directors' reports of the Group's United Kingdom operating companies give information about their creditor payment policies as required by the Companies Act. The Company, as a holding company, does not itself make any relevant payments in this respect.

Auditors

A resolution proposing the re-appointment of PricewaterhouseCoopers, Chartered Accountants, as auditors to the Company and authorising the directors to determine their remuneration will be put to the Annual General Meeting.

Approved by the Board on 4th March 2002 and signed on its behalf by

Emma Thomas
Group Company Secretary

Directors' Responsibilities

In respect of the preparation of financial statements

The directors are required by company law to prepare financial statements which give a true and fair view of the state of affairs of the Company and the Group at the end of the financial year and of the profit and cash flows of the Group for the period to that date. The financial statements must be prepared in compliance with the required formats and disclosures of the Companies Act 1985 and in accordance with applicable accounting standards. In addition, the directors are required;

- to adopt suitable accounting policies and apply them consistently;
- to make judgements and estimates that are reasonable and prudent;
- to take account of expenses and income relating to the period being reported on, whether or not they have been paid or received in that period; and
- to prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors confirm that the financial statements comply with the above requirements.

The directors are also responsible for the maintenance and integrity of the Nestor Healthcare Group plc web sites on which the financial statements are published. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors are also responsible for maintaining adequate accounting records so as to ensure that the financial statements comply with the requirements of the Companies Act, for safeguarding the assets of the Group, and for preventing and detecting fraud and other irregularities.

Remuneration Report

The Board is pleased to present its remuneration report for the year ended 31st December 2001.

Remuneration policy

During the year, the Board delegated its powers to determine the Company's remuneration policy for senior executives, including executive directors, to the Remuneration Committee ("the Committee"), the members of which during the year were David Heywood, Robert Nicholls, Anne Parker, David Howell, William Holmes and Antony Beevor. William Holmes retired from the Committee on his appointment as an executive director of the Company in October 2001 and Anne Parker and David Heywood retired from the Committee on the date of their respective retirements from the Board. Since the year-end, Timothy Harris and Ingrid Alexander have been appointed to the Committee. Further details relating to the Committee may be found on page 36 of this report.

In determining its policy, the Committee has paid regard to the principles and provisions of good governance contained in the Combined Code published by the Committee on Corporate Governance. It has also received advice from the remuneration consultants, New Bridge Street Consultants. Since the year-end, the Committee has confirmed the appointment of New Bridge Street Consultants as its retained advisor. The Company has also instructed New Bridge Street Consultants to advise it on certain ad hoc matters during the year, for example in relation to the new Chairman's letter of appointment and has separate terms of engagement with the firm.

The Committee's aim is to provide a package of remuneration which is sufficient to attract, retain and motivate all of the Company's senior management, including executive directors, and to reward good performance. To that end, the Committee has decided to structure executive remuneration in three component parts:

- Basic salary and benefits

  Basic salary is determined by reference to the responsibilities and performance of the individual during the year, taking into account their level of experience and the rates of basic pay for similar roles in comparable companies. In addition to the basic salary and items described below, the Company provides a range of benefits to executive directors, the most significant of which are a fully expensed car or cash alternative and the provision of pension arrangements. During the year, the Committee commissioned New Bridge Street Consultants to undertake a comprehensive job evaluation exercise and salary review for all senior managers in the Group. The total remuneration of these managers was compared with that paid in companies of a similar size to the Company and in similar industries, using the results of two industry-wide salary surveys. The Committee's overall aim is to ensure that the remuneration paid to the Group's senior managers is broadly in line with the median of that paid by comparable companies.

- Cash bonus

  Each year, the Committee sets stretching bonus targets for each executive, aiming to achieve a balance between short- and long-term objectives. Targets comprise individual performance criteria specific to the executive's role and overall Company performance including profit before tax and earnings per share. No bonus is payable unless the Group's profitability meets certain stringent targets relating to the Company's profit growth, whether or not the executive has achieved his individual objectives. Bonuses are not pensionable.

  In 2001, the Committee agreed that the maximum level of bonus payable (if any) to each executive director would be 50% of salary. However, following the acquisition of the Healthcall businesses in September 2001, the Committee identified the need to incentivise the senior management team charged with its successful integration in order to ensure that the benefits of the acquisition identified by the Board were delivered quickly and cost-effectively. Accordingly, in October, the Committee agreed to award an additional bonus of up to 50% of salary to certain directors, subject to the achievement of stretching targets directly related to the successful integration of Healthcall.

- Share options

  The Board believes that share ownership by senior executives encourages above average performance, since the interests of management and shareholders are thereby aligned. Accordingly, it is the Committee's policy to grant share options to executive directors, as well as to other employees, provided adequate performance has been demonstrated. Options are not exercisable unless the Company has met challenging performance targets as determined by the Committee.

Employee share option schemes

The Company operates a number of employee share option schemes available to executive directors and to middle and senior managers, all of which (except the savings related option scheme) have performance conditions attached to them.

The Committee has determined that the exercise of options held under the Company Share Option Plan 1996 and the Employee Share Option Scheme 1996 is conditional on growth in the Company's earnings per share of at least 15 percent above the growth in the UK retail prices index over three consecutive financial years beginning with the financial year prior to the date of grant and continuing throughout the period during which the option is exercisable.

It is the Company's policy regularly to grant share options, on a rateable basis, to a broad range of middle and senior management, including executive directors. Normally, options are granted annually to all such employees, at a rate of one times salary, although in exceptional cases, where a key executive joins the Group, a higher limit has been applied.

The Company also operates a savings related share option scheme, which provides a long-term savings opportunity for all of the Group's employees, as well as encouraging them to participate in the success of the Company. Participation is open to all permanent employees whose contracts oblige them to work a minimum number of hours and are exercisable in normal circumstances after three or five years at a price which is fixed at a discount of 20% from the average of the mid-market prices for the five business days immediately preceding the date on which invitations are made by the Committee.

Remuneration Report continued

The Committee, advised by New Bridge Street Consultants, has made a number of proposals to the Board recommending the adoption of new executive share option schemes to replace the schemes currently in place; primarily for the purpose of bringing the Group's share option arrangements into line with the ABI's current guidelines. In addition, following a review of the remuneration package payable to members of the Group's senior executive team, it has recommended that new long-term incentive arrangements, with very stretching targets, be adopted by the Company, in order to attract, retain and motivate the Group's senior executive team to achieve exceptional performance in future years. After consideration, the Board has accepted the Committee's recommendations and full details of its proposals may be found in the accompanying circular to shareholders.

Company policy on contracts of service

Executive directors have contracts of employment terminable on one year's notice, except, in relation to Justin Jewitt and David Lyon, in circumstances of a change of control of the Company, where two years' notice is required. Non-executive directors do not hold contracts of employment but are offered letters of appointment for fixed periods of three years, renewable annually thereafter by agreement. The Chairman's letter of appointment is for a fixed period, terminating on 31st December 2004. The letter provides for payment of 25% of his annual fee in the event of early termination of his appointment, in accordance with best practice. Other non-executive directors are not entitled to any compensation for the early termination of their appointment and no non-executive director is entitled to any employment-related benefits, other than the reimbursement of expenses.

Company policy on the pensions of executive directors

Executive directors are able to join the Company's Retirement Benefits Scheme ("the Scheme"), a funded, Inland Revenue approved, final salary occupational pension scheme. Executive directors are entitled to a pension based on final salary (excluding bonuses) and length of pensionable service. The Company has agreed to provide benefits to directors based on their actual basic salary, even where this exceeds the Inland Revenue Earnings "cap", subject to their making members' contributions to the Scheme on the same basis. The Company has also established an unapproved scheme to provide additional death-in-service benefits to these directors in line with their actual basic salaries.

During the year, after having taken advice from the Scheme's actuary, the Board agreed to improve the benefits available under the Scheme to those executive directors who were members at that time. Accordingly, the normal retirement age of David Lyon, Michael Horgan and Stephen Page was reduced from 65 to 60 and the rate of accrual in respect of those directors was increased from 60th to 50th. The Board also agreed to backdate the provision of these benefits to the date of appointment to the Board of each director.

The Board has determined that a decision whether to improve the pension benefits made available to executive directors will be made on a case-by-case basis and since the year-end, has agreed to provide similar benefits to Dr. William Holmes, who joined the Scheme on becoming an executive director in October 2001.

Prior to the establishment of the Company's current policy on membership of the scheme, the Company agreed to contribute to a personal pension plan for Justin Jewitt, which it continues to do. After the year-end, the Board agreed to increase the employer's contributions made to Justin Jewitt's personal pension plan to a rate equivalent to that paid into the Scheme in respect of other executive directors. It also agreed to make a "one-off" lump sum payment of £100,000 to Justin Jewitt in order broadly to align his pension benefits with those executive directors who are members of the Scheme.

Directors' emoluments

	Basic salary and fees 2001 £000	Taxable benefits 2001 £000	Performance related bonuses 2001 £000	Total emoluments excluding pensions 2001 £000	Total emoluments excluding pensions 2000 £000
D G Heywood	108	3	–	111	114
I C Alexander	10	–	–	10	–
A R Beevor	26	–	–	26	4
W F Holmes	51	3	83	137	40
D Howell	31	–	–	31	29
R M Nicholls	31	–	–	31	29
A Parker	6	–	–	6	25
J A S Jewitt	242	10	239	491	300
M D R Horgan	147	9	95	251	149
D O Lyon	141	13	139	293	178
S R Page	138	15	118	271	–
Total 2001	931	53	674	1,658	–
Total 2000	729	32	107	–	868

David Heywood retired on 31st December 2001. In recognition of his services as Chairman of the Group for the last seven years, David Heywood was presented with a retirement gift valued at £12,000.

Anne Parker retired as a director on 31st March 2001. William Holmes was appointed as an executive director on 1st October 2001. Stephen Page and Ingrid Alexander were appointed on 2nd March 2001 and 13th August 2001 respectively.

The figures above represent emoluments earned as directors during the relevant financial year. All are paid in the year that they are earned, with the exception of bonuses, which are paid in the year following that in which they were earned.

Directors' pensions

Defined benefit scheme

	Accrued pension per annum at 31st December 2001 £000	Increase in accrued pension per annum during 2001 excluding price inflation £000	Transfer value of the increase less director's contributions £000
M D R Horgan	55	9	222
D O Lyon	34	12	98
S R Page	3	3	15
W F Holmes	1	1	4

The transfer value has been calculated on the basis of actuarial advice in accordance with the Actuarial Guidance Note GN11.

The above figures exclude any benefits derived from directors' additional voluntary contributions.

Defined contribution scheme

Employer contributions of £157,282 were paid during the year to a personal pension plan for Justin Jewitt, including the lump sum of £100,000 referred to above.

Directors' interests

The beneficial and family interests of directors in the share capital of the Company according to the register of directors' interests maintained by the Company under Section 325 of the Companies Act 1985 were:

	Ordinary Shares		Share Options Company Plan 1996		Share Options Employee Scheme 1996		Share Options SAYE Schemes	
	31.12.01	31.12.00	31.12.01	31.12.00	31.12.01	31.12.00	31.12.01	31.12.00
D G Heywood	411,235	393,589	–	–	–	–	–	–
A R Beevor	5,000	2,000	–	–	–	–	–	–
W F Holmes	4,000	4,000	5,882	–	43,137	–	–	–
M D R Horgan	–	–	5,529	26,000	163,602	156,909	2,606	4,717
D Howell	4,000	4,000	–	–	–	–	–	–
J A S Jewitt	170,770	170,770	7,058	7,058	289,283	267,283	3,773	–
D O Lyon	35,750	35,750	–	26,000	54,163	96,741	2,166	–
S R Page	8,222	6,222 [4]	6,349	6,349 [4]	46,561	46,561 [4]	2,166	–

Notes:

1. None of the directors has any non-beneficial interest in the Company's share capital.
2. No director was materially interested in any contract of significance (apart from contracts of service or for services) with any Group company during or at the end of the financial year.
3. There have been no changes in the directors' interest in the share capital of the Company between 31st December 2001 and the date of this report.
4. At date of appointment.

Details of share options held by the directors during the year were:

	Scheme (see below)	At 1st January 2001	Granted/ (Exercised)	Number of Options At 31st December 2001	Exercise Price	Date from which exercisable	Expiry date
J A S Jewitt	1	221,400	–	221,400	115p	Nov '99	Nov '03
	1	45,883	–	45,883	425p	May '03	May '07
	1	–	22,000	22,000	542.5p	Mar '04	Mar '08
	2	7,058	–	7,058	425p	May '03	May '10
	3	–	3,773	3,773	447.2p	May '06	Nov '06
M D R Horgan	1	72,200	–	72,200	115p	Nov '99	Nov '03
	1	42,283	–	42,283	236.5p	Apr '01	Apr '05
	1	12,132	–	12,132	407.5p	Apr '02	Apr '06
	1	30,294	–	30,294	425p	May '03	May '07
	1	–	6,693	6,693	542.5p	Mar '04	Mar '08
	2	26,000	(26,000)	–	115p	Nov '99	Nov '06
	2	–	5,529	5,529	542.5p	Mar '04	Mar '11
	3	2,977	(2,977)	–	131p	Feb '01	Aug '01
	3	1,270	–	1,270	305p	Feb '02	Aug '02
	3	470	–	470	412p	Dec '02	Jun '03
	3	–	866	866	447.2p	May '04	Nov '04
D O Lyon	1	16,800	(16,800)	–	115p	Nov '99	Nov '03
	1	38,000	(38,000)	–	254.5p	Apr '01	Apr '05
	1	11,647	–	11,647	407.5p	Apr '02	Apr '06
	1	30,294	–	30,294	425p	May '03	May '07
	1	–	12,222	12,222	542.5p	Mar '04	Mar '08
	2	26,000	(26,000)	–	115p	Nov '99	Nov '06
	3	–	2,166	2,166	447.2p	May '04	Nov '04
S R Page	1	46,561	–	46,561	472.5p	Nov '03	Nov '07
	2	6,349	–	6,349	472.5p	Nov '03	Nov '10
	3	–	2,166	2,166	447.2p	May '04	Nov '04
W F Holmes	1	–	43,137	43,137	510p	Oct '04	Oct '08
	2	–	5,882	5,882	510p	Oct '04	Oct '11

Schemes:

1. Employee Share Option Scheme 1996 Options
2. Company Share Option Plan 1996 Options
3. SAYE Scheme Options

Notes:

1. There is no cost to the employee for the receipt of the Employee Share Option Scheme 1996 or Company Share Option Plan 1996 options. Deductions from earnings are made in respect of SAYE options.
2. Employee Share Option Scheme 1996 and Company Share Option Plan 1996 option prices are fixed at the mid-market price on the business day preceding the date of grant.
3. SAYE Scheme options are fixed at a discount of 20% from the average of the mid-market prices for the five business days immediately before the date of invitation.
4. The mid-market price at 31st December 2001 was 547.5 pence and the range during the year was 475 pence to 627.5 pence.
5. During the year, Michael Horgan and David Lyon exercised options granted under the Employee Share Option Scheme, the Company Share Option Plan and the SAYE Scheme. The aggregate gain made was £431,145. Aggregate gains made by directors on the exercise of share options in 2000 were £238,912.
6. None of the options held by the directors has lapsed during the current year.

On behalf of the Board

Robert Nicholls, CBE

Chairman, Remuneration Committee

4th March 2002

Corporate Governance

The Company complied throughout the year with the Code provisions set out in Section 1 of the Combined Code published by the Committee on Corporate Governance in June 1998 ("the Code") except where indicated in this statement.

The manner in which the Group applies the principles of good governance contained in the Code is described in the appropriate parts of this annual report. Thus the application by the Company of the Code's principles to remuneration matters at pages 31 and 33 should be read in conjunction with the statement below.

During the year, the Company has maintained a Board of directors which leads and controls the Company by holding at least ten meetings a year at which its current performance is examined and directions are given to operating executives. Regular reports on monthly performance and other ad hoc matters of importance to the Company ensure that the Board is supplied in a timely manner with the information necessary to make an informed judgement. In addition, the Board holds regular meetings to discuss and devise the Company's medium- and long-term strategic focus and holds additional meetings as and when necessary to discuss other issues, such as potential acquisitions. During the year, the Board held a number of such meetings, including a number specifically to consider the acquisition of the Healthcall Group.

In accordance with the provisions of the Articles of Association and with the Code, each director is subject to re-election by the Company's shareholders at the Annual General Meeting immediately following appointment and at least every three years thereafter.

The Board has a Schedule of Matters specifically reserved to it for decision and has approved the written terms of reference for the various committees to which it has delegated its authority in certain matters. The Schedule makes it clear that all directors have access to the advice and services of the Company Secretary and establishes a procedure for all directors to take independent advice, if necessary, at the Company's expense.

During the year, the Board was led by David Heywood, the Company's non-executive Chairman, until his retirement on 31st December 2001. Having carefully reviewed the provisions of the Code in 1998, the Board considers him to be independent since, although he was previously designated as the part-time executive Chairman, his focus during the year was on the overall performance of the Group and matters of corporate strategy, including shareholder relations. Accordingly, the Board does not consider that his previous "executive" role in the Company interfered in any way with his ability to exercise his independent judgement.

On 1st January 2002, Antony Beevor, formerly a non-executive director of the Company, was appointed non-executive Chairman. The Board recognises that, as the former head of the Corporate Finance division of and as a part-time senior adviser to SG Hambros, the Group's financial advisor, Mr Beevor does not meet all of the criteria of "independence" laid down in the corporate governance guidelines of some major institutional investors. However, after careful consideration, it has concluded that Mr Beevor is independent for the purposes of the Code, since his relationship with the Company's financial advisor does not interfere in any way with his ability to exercise independent, experienced and informed judgement as a non-executive director of the Company.

The day-to-day running of the Company's business was delegated to an executive team of directors and senior managers led by Justin Jewitt, the Group's Chief Executive and which includes David Lyon, Group Finance Director, and Stephen Page, Managing Director of the Company's Healthcare Services Division. Since the year-end, Robbie Burns, who was previously the Managing Director of the Healthcall Group and who joined the executive team on its acquisition has also joined the Board. During the year, five non-executive directors with extensive finance, health and social care backgrounds provided the Board with a breadth of experience and with independent judgement. Robert Nicholls, CBE was and remains the Company's independent senior non-executive director.

During the year, until 30th September 2001, Dr William Holmes served as an independent non-executive director of the Company. However, following the Group's acquisition of the Healthcall Group in September, its need for clinical guidance of the calibre available from Dr Holmes significantly increased and, accordingly, he agreed to take up a full-time executive position from 1st October.

Following the retirement of Anne Parker, CBE, the Board was further strengthened by the appointment of Ingrid Alexander, CBE as a further independent non-executive director. Following David Heywood's retirement on 31st December, Timothy Harris, CBE was also appointed as an independent non-executive director.

The Board actively encourages all directors to deepen their knowledge of their role and responsibilities and, during the year, all newly appointed Board members received the opportunity to receive formal training on courses specifically designed to help them to do so. In addition, all of the non-executive directors spent a number of days meeting members of the Company's executive team and most visited several of the Group's operating divisions.

The Board operates a number of committees, consisting wholly or mainly of non-executive directors to which it has delegated certain specific responsibilities and each of which have formally adopted terms of reference. These comprise Nomination, Audit and Remuneration Committees. The Nomination Committee, which makes recommendations to the Board on the appointment of directors, was during the year chaired by David Heywood. Its composition is not fixed but comprises those directors who, in the Board's opinion, are best qualified to judge the suitability of candidates for the position to be filled. The Committee always comprises a majority of independent non-executive directors, including the Chairman of the Company and in arriving at its recommendations, it makes use of professional advisors as it considers necessary. Since the year-end, Mr Beevor has become Chairman of the Committee.

Corporate Governance continued

The Audit Committee is chaired by David Howell, who is a chartered accountant, Chief Financial Officer and Executive Director of lastminute.com plc. It comprises only independent non-executive directors and meets regularly to review the preliminary and interim results before they are presented to the Board, to receive reports from the Company's internal and external auditors and to make recommendations to the Board on accounting policies. Its primary duties include the monitoring, on behalf of the Board, of compliance with and the effectiveness of the Company's accounting and internal control systems. The Committee's duties also include monitoring the scope and results of the Company's annual audit and the independence and objectivity of its auditors.

The Company has outsourced its internal audit function to a leading firm of chartered accountants, which reports regularly to the Audit Committee on projects undertaken in accordance with the audit plan agreed with the Committee at the beginning of every financial year.

During the year, only independent non-executive directors served on the Remuneration Committee, which determines the Group's overall remuneration strategy and the remuneration packages of the executive directors and other senior executives, after having consulted with the Chief Executive. In determining remuneration policy, the Committee is free to obtain such professional advice as it sees fit, and regularly monitors both the policies of comparator companies and current market practice, in order to ensure that the packages provided are sufficient to attract and retain executive directors of the necessary quality. During the year, the Committee was chaired by David Heywood. Following his retirement at the year-end, Robert Nicholls has taken over the chair.

The remuneration of non-executive directors, including the Chairman, is a matter for the Company's Board and the Committee's terms of reference make it clear that the framework for the remuneration of the Company's senior executives must be agreed by the Board as a whole.

Short biographies of each of the directors, including their membership of the Board's committees outlined above, may be found on pages 26 and 27.

The Board, on the Company's behalf, recognises the need to maintain an active dialogue with its shareholders. The Chief Executive and Group Finance Director meet regularly with institutional investors and analysts to discuss the Company's performance and all shareholders have access to the senior non-executive director, who is available to discuss any concerns which investors may have in relation to the running of the Company. They also have access to the Chairman of the Company if they so require. The Board encourages all shareholders to attend the Annual General Meeting and is always willing to answer questions, either at the meeting itself or, more informally, afterwards.

Going Concern

The directors confirm that, after reviewing the financial position and cash flows of the Group, they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Internal Controls

As required by the UK Listing Authority, the Company has complied throughout the year with the provisions of the Combined Code relating to internal controls, having implemented the procedures necessary to comply with the guidance issued in September 1999 (the Turnbull Committee Report) and to report in line with that guidance.

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

In 1999, the directors adopted a revised comprehensive process for managing, evaluating and reporting on significant risks faced by the Group. The revised (and further refined) process has been in place for the whole of 2001 and up to the date of approval of the Annual Report & Accounts.

The key elements of the system operated by the Group to identify, evaluate and manage significant risks include the following:

- The Group's management operates a formal process for identifying, managing and reporting on operational and financial risks faced by each of the Group's businesses, whereby each of the risks identified is reviewed in detail by the executive directors on a quarterly basis and updated monthly as necessary. These reports form the basis of risk registers that are provided to the Audit Committee. Business review meetings are held on at least a monthly basis at which the Group's business managers and executive team members review the performance of the business and share best practice. During the year, the Group's management also instituted a formal process for identifying function-specific risks across the Group's operations, including IT, human resources, legal and clinical risks. A mechanism also exists to extend the Group's formal risk management processes to any new business acquired or begun by the Company immediately upon acquisition or start-up. In this way, the Board is able to confirm that the necessary process has been operated by the Group for the whole of 2001.
- At each regular meeting, the Audit Committee of the Board reviews a register compiled by the managing director of each of the Group's businesses and the Group's corporate resource, summarising the significant risks faced by the businesses, the likelihood of those risks occurring and the steps being taken to minimise or otherwise manage those risks.

- The Board has, during the year, adopted new policies for managing business risks it has identified as having the potential to impact significantly on the Group's performance. For example, in 2001, it adopted a revised policy on the process used by all Group companies for tendering for and entering into, major contracts with their customers. During the year, it also began working on a comprehensive revision of policy on the clinical standards observed across the Group's businesses.

As required by the Turnbull Committee Report, the Board has carried out an annual assessment of the effectiveness of the system of internal controls. The processes applied by the Board include:

- At the end of the year, the managing directors of each of the Group's businesses, including the Group's corporate resource, are required to complete and sign a register of the key financial and operational risks facing the business for which they are responsible and to confirm that they have complied throughout the year with the Company's policies and procedures on risk management. From these registers, a report identifying the key risks faced by the Group is compiled and signed by the Chief Executive, Group Finance Director and Company Secretary, who are also required to confirm their compliance with such procedures and policies. This report and the annual compliance statements of each of the managing directors are reviewed by the Board before the Annual Report & Accounts are approved.
- The Group has an independent internal audit function which reviews the overall effectiveness of the risk management process for the key risks and reports independently to the Audit Committee.
- At each meeting the Audit Committee reviews reports of the executive management, internal and external auditors, on any issues identified as having a potentially substantial impact on the results of the Group, or areas of control weakness.
- The Audit Committee reviews the effectiveness of the Group's system of managing financial risk and refers any risks it considers significant to the Board for its consideration.
- At least twice a year, the Audit Committee reviews the work plans and results of each of the internal and external auditors.
- The Audit Committee Chairman reports the outcome of all Audit Committee meetings to the Board, which also receives minutes of all such meetings.

Auditors' Report

Report to the shareholders of Nestor Healthcare Group plc

We have audited the financial statements which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses and related notes (and the additional disclosures relating to the remuneration of directors included in the Remuneration Report) which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report and financial statements, in accordance with applicable United Kingdom law and accounting standards as set out in the statement of directors' responsibilities. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Chairman's Statement, the Chief Executive's Review and the Financial Review, the Corporate Governance statement, the Remuneration Report and the Directors' Report.

We review whether the Corporate Governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31st December 2001 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
1 Embankment Place
London WC2N 6RH
4th March 2002

Consolidated Profit and Loss Account

for the year ended 31st December 2001

	Notes	2001 Before goodwill amortisation and exceptional items £000	2001 Goodwill amortisation and exceptional items £000	2001 Total £000	2000 Before goodwill amortisation and exceptional items £000	2000 Goodwill amortisation and exceptional items £000	2000 Total £000
Turnover							
Existing		361,258	–	361,258	292,802	–	292,802
Acquisitions		39,707	–	39,707	–	–	–
Turnover	2,3	400,965	–	400,965	292,802	–	292,802
Cost of sales		(312,778)	–	(312,778)	(232,096)	–	(232,096)
Gross profit		88,187	–	88,187	60,706	–	60,706
Administrative expenses		(62,727)	(3,831)	(66,558)	(42,372)	(1,210)	(43,582)
Exceptional items	5	–	(4,574)	(4,574)	–	–	–
Continuing operations							
Existing	3	19,763	(4,578)	15,185	18,334	(1,210)	17,124
Acquisitions	3	5,697	(3,827)	1,870	–	–	–
Operating profit	3,4	25,460	(8,405)	17,055	18,334	(1,210)	17,124
Exceptional loss on disposal of subsidiary undertakings	5	–	–	–	–	(727)	(727)
Profit on ordinary activities before interest		25,460	(8,405)	17,055	18,334	(1,937)	16,397
Net interest (payable)/receivable	8	(1,544)	–	(1,544)	425	–	425
Profit on ordinary activities before taxation goodwill amortisation and exceptional items		23,916	–	23,916	18,759	–	18,759
Goodwill amortisation		–	(3,831)	(3,831)	–	(1,210)	(1,210)
Exceptional items		–	(4,574)	(4,574)	–	(727)	(727)
Profit on ordinary activities before taxation		23,916	(8,405)	15,511	18,759	(1,937)	16,822
Tax on profit on ordinary activities	9	(7,043)	1,030	(6,013)	(5,190)	–	(5,190)
Profit on ordinary activities after taxation		16,873	(7,375)	9,498	13,569	(1,937)	11,632
Equity minority interests		(19)	–	(19)	(158)	–	(158)
Profit attributable to shareholders		16,854	(7,375)	9,479	13,411	(1,937)	11,474
Dividends	11	(6,996)	–	(6,996)	(5,247)	–	(5,247)
Retained profit for the year	24	9,858	(7,375)	2,483	8,164	(1,937)	6,227
Earnings per share							
Basic	12	20.54p	(8.99p)	11.55p	17.10p	(2.47p)	14.63p
Diluted	12	20.34p	(8.90p)	11.44p	16.91p	(2.44p)	14.47p
Dividends per share	11	8.02p	–	8.02p	6.69p	–	6.69p

The historical cost profit on ordinary activities before taxation and the historical cost profit retained for the year after taxation and dividends are the same as those reported above.

Statement of Total Recognised Gains and Losses
for the year ended 31st December 2001

	2001 £000	2000 £000
Profit attributable to shareholders	**9,479**	11,474
Total recognised gains and losses relating to the year	**9,479**	11,474

Reconciliation of Movements in Equity Shareholders' Funds
for the year ended 31st December 2001

	Notes	2001 £000	2000 £000
Profit attributable to shareholders		**9,479**	11,474
Dividends	11	**(6,996)**	(5,247)
Shares issued during the year		**38,969**	1,287
Cost of share issue		**(684)**	–
Contribution to Employee Share Ownership Trust		**–**	(984)
Net increase in equity shareholders' funds		**40,768**	6,530
Opening equity shareholders' funds		**52,509**	45,979
Closing equity shareholders' funds		**93,277**	52,509

Balance Sheets
as at 31st December 2001

	Notes	Group 2001 £000	Group 2000 £000	Company 2001 £000	Company 2000 £000
Fixed assets					
Intangible assets	13	**152,507**	31,428	**–**	–
Tangible fixed assets	14	**13,512**	7,776	**720**	270
Investments	16	**28**	28	**33,451**	32,628
		166,047	39,232	**34,171**	32,898
Current assets					
Debtors	17	**66,024**	40,926	**186,609**	53,813
Cash at bank and in hand		**4,341**	13,477	**6**	7,279
		70,365	54,403	**186,615**	61,092
Creditors – amounts falling due within one year	18	**(81,175)**	(38,548)	**(56,315)**	(24,856)
Net current (liabilities)/assets		**(10,810)**	15,855	**130,300**	36,236
Total assets less current liabilities		**155,237**	55,087	**164,471**	69,134
Creditors – amounts falling due after more than one year	19	**(55,401)**	(76)	**(55,005)**	–
Provisions for liabilities and charges	22	**(6,246)**	(2,171)	**(1,287)**	(1,958)
Net assets		**93,590**	52,840	**108,179**	67,176
Capital and reserves					
Called up share capital	23	**8,708**	7,853	**8,708**	7,853
Share premium account	24	**42,298**	4,868	**42,298**	4,868
Other reserves	24	**864**	864	**25,750**	25,750
Profit and loss account	24	**41,407**	38,924	**31,423**	28,705
Equity shareholders' funds		**93,277**	52,509	**108,179**	67,176
Equity minority interests		**313**	331	**–**	–
		93,590	52,840	**108,179**	67,176

The financial statements on pages 39 to 61 were approved by the Board on 4th March 2002 and were signed on its behalf by

A R Beevor

D O Lyon

Consolidated Cash Flow Statement

for the year ended 31st December 2001

	2001 £000	2001 £000	2000 £000	2000 £000
Net cash inflow from operating activities before exceptional items (note 25)		24,648		23,760
Payments in respect of exceptional items (note 5)		(2,246)		–
Returns on investments and servicing of finance				
Interest paid	(1,372)		(353)	
Interest received	493		863	
Interest element of finance leases	(85)		–	
Net cash (outflow)/inflow from returns on investments and servicing of finance		(964)		510
Taxation		(6,268)		(3,776)
Net cash inflow before investing activities and equity dividends paid		15,170		20,494
Capital expenditure and financial investment				
Purchase of tangible fixed assets (note 14)	(4,632)		(2,673)	
Sale of tangible fixed assets	109		308	
Net cash outflow from capital expenditure and financial investment		(4,523)		(2,365)
Acquisitions and disposals				
Purchase of businesses and subsidiary undertakings (note 16)	(125,328)		(13,036)	
Net cash acquired with businesses (note 16)	394		1,864	
Sale of discontinued operations	–		(740)	
Receipts from loan note redemptions	–		45	
Net cash outflow from acquisitions and disposals		(124,934)		(11,867)
Equity dividends paid		(5,883)		(4,674)
Net cash (outflow)/inflow before financing		(120,170)		1,588
Financing				
Issue of ordinary share capital (note 23)	38,969		275	
Expenses of share issue	(684)		–	
Capital element of finance lease payments	(476)		–	
Increase/(decrease) in borrowing	70,155		(60)	
Net cash inflow from financing		107,964		215
(Decrease)/increase in cash		(12,206)		1,803

The notes to the Consolidated Cash Flow Statement are shown in note 25 to the financial statements.

Acquired businesses generated net cash outflow from operating activities before exceptional items of £1,857,000 and exceptional payments of £2,246,000 during the year following acquisition. The impact on net cash outflow from taxation payments was £471,000 and on capital expenditure and financial investment was £1,244,000.

Notes to the Financial Statements

for the year ended 31st December 2001

1 Accounting policies

The Group has adopted FRS18, Accounting Policies, in the current year, but this did not require any change in accounting policies.

Basis of accounting

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention.

Basis of consolidation

The Group financial statements comprise a consolidation of the financial statements of the Company and all its subsidiary undertakings. The results of businesses acquired are included from the effective date of acquisition and businesses sold are included up to the date of disposal. Merger accounting rules are followed in respect of mergers which satisfy the conditions set out in FRS 6.

Goodwill and amortisation

Purchased goodwill, being the excess of the fair value of the purchase consideration over the fair value of the net assets of newly acquired undertakings, is capitalised on the balance sheet, and amortised over its useful economic life not exceeding 20 years. Prior to 1st January 1998, all purchased goodwill was written off to reserves on acquisition. Previously written off goodwill has not been reinstated and is charged to the profit and loss account on the disposal or termination of the related business.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is calculated so as to write down the cost of tangible assets to their estimated residual value in equal instalments over their estimated useful lives. The range of estimated useful lives for each major asset category are:

Leasehold land and buildings	Term of the lease
Plant and equipment	3 to 8 years

Deferred taxation

Deferred taxation is provided on the liability method where, in the opinion of the directors, it is probable that the liability will crystallise in the foreseeable future.

Pension costs

Pension costs are charged to the profit and loss account in such a way as to provide for the liabilities evenly over the average remaining working lives of the employees.

Leases

Where fixed assets are financed by leasing agreements which give rights approximately equivalent to ownership (finance lease), the assets are capitalised. The corresponding lease commitments are treated as obligations to the lessor. All other lease payments are charged to the profit and loss account in the year to which they relate.

Share Schemes

The Group's Qualifying Employee Share Ownership Trust (QUEST) is a separately administered trust which is funded by a loan and a gift from the Group, and the assets of which comprise shares in the Company. Shares in the QUEST are shown at their estimated recoverable amount, being the option price of the shares payable by employees. The amounts contributed to the QUEST in excess of the option price are charged against reserves.

2 Turnover

Turnover represents the amount invoiced net of value added tax in respect of the provision of services delivered to customers during the year.

3 Segmental reporting

The UK was the origin and destination of all the Group's turnover in both 2001 and 2000.

	Turnover	
	2001 £000	2000 £000
Turnover by business activity		
Healthcare Personnel	**308,821**	245,403
Healthcare Services	**92,144**	47,399
Total	**400,965**	292,802

All turnover is derived from external customers.

3 Segmental reporting continued

	Total operating profit before goodwill amortisation and exceptional items 2001 £000	2000 £000	Total operating profit 2001 £000	2000 £000
Operating profit by business activity				
Healthcare Personnel	**19,978**	16,006	**16,758**	15,249
Healthcare Services	**5,482**	2,328	**297**	1,875
Total	**25,460**	18,334	**17,055**	17,124

Central costs have been allocated across the business segments on the basis of activity.

Included within the turnover of Healthcare Services for the year ended 31st December 2001 is a contribution of £37,600,000 from Healthcall which was acquired during the year. Similarly, the Healthcare Services total operating profit before goodwill amortisation and exceptional items included a contribution of £5,700,000 and total operating profit included a contribution of £1,900,000 in respect of Healthcall.

Turnover, cost of sales, gross profit, administrative expenses and operating profit are analysed between existing and acquired operations as follows:

	Continuing existing 2001 £000	Continuing acquisitions 2001 £000	Total 2001 £000	Total 2000 £000
Turnover	**361,258**	**39,707**	**400,965**	292,802
Cost of sales	**(286,146)**	**(26,632)**	**(312,778)**	(232,096)
Gross profit	**75,112**	**13,075**	**88,187**	60,706
Administrative expenses – ongoing	**(57,482)**	**(9,076)**	**(66,558)**	(43,582)
– exceptional items	**(2,445)**	**(2,129)**	**(4,574)**	–
Operating profit	**15,185**	**1,870**	**17,055**	17,124

The contribution from acquisitions shown above and on the face of the profit and loss account reflects the contribution from Healthcall and Care Monitoring 2000 Limited.

The Goldsborough and other businesses that were acquired during the year have been fully integrated into the Group's existing businesses. The Goldsborough businesses generated turnover of £17,700,000 and gross profit of £5,800,000. However, because of the integration it is not possible to separately identify the administrative expenses and hence operating profits of the Goldsborough and other acquired businesses. Accordingly, the results of the Goldsborough and other acquired businesses have been included within the existing operations.

	Net operating assets 2001 £000	2000 £000
Analysis of net operating assets/(liabilities) by business activity		
Healthcare Personnel	**73,101**	53,973
Healthcare Services	**125,784**	12,449
Central	**(13,054)**	(5,620)
Total continuing operations	**185,831**	60,802

	2001 £000	2000 £000
Net assets per consolidated balance sheet	**93,590**	52,840
Net debt/(cash)	**75,350**	(8,929)
Goodwill written off to reserves	**16,891**	16,891
Total net operating assets, including goodwill	**185,831**	60,802

All operating assets were held in the United Kingdom in both 2001 and 2000.

4 Operating profit

	2001 £000	2000 £000
Operating profit is stated after charging/(crediting)		
Depreciation	**4,945**	2,855
Amortisation of goodwill	**3,831**	1,210
Net loss/(profit) on sale of tangible fixed assets	**160**	(105)
Auditors' remuneration – audit	**361**	321
Operating lease rentals:		
Land and buildings	**4,186**	1,546
Plant and machinery	**452**	17

Remuneration of the Company's auditors in respect of other services amounted to £1,574,000 (2000 – £702,000). This comprises £930,000 relating to fees for due diligence and other acquisition related work, tax related work of £191,000 and £453,000 of other fees.

Auditors' remuneration in respect of the Company's audit amounted to £46,000 (2000 – £37,000).

5 Exceptional items

Exceptional items comprise:

	2001 £000	2000 £000
Restructing and integration costs	**3,674**	–
Impairment of goodwill and fixed assets	**900**	–
	4,574	–

Following the acquisition of Healthcall and the Goldsborough businesses, the decision was taken to restructure the acquired businesses and integrate them with the Group's existing businesses. The costs associated with the restructuring and the integration amounted to £3,674,000 and mainly comprise redundancy and other staff related costs, properly withdrawal costs and IT integration costs. A tax credit of £1,030,000 has been booked in respect of these exceptional charges. Payments in respect of the restructuring and integration costs amounted to £2,246,000 in 2001.

A 51% share of Hertford Medical International was acquired at the end of 2000. Its performance following acquisition has been below expectations and a review of the carrying value of the Group's 51% interest has been undertaken. Accordingy, it has been determined that fixed assets have been impaired by £73,000 and goodwill by £827,000.

Exceptional loss on disposal of subsidiary undertakings comprises:

	2001 £000	2000 £000
Provision against Scott-Grant loan note	–	(727)

The Scott-Grant loan note was granted as part of the disposal consideration received for Scott-Grant in 1996. The loan note was due to be repaid in 2000 but in November 2000, the management of Scott-Grant informed Nestor that it was unlikely to be able to repay the outstanding loan notes in the foreseeable future. The Directors therefore decided to provide against the full value of the loan note and this was treated as an exceptional loss on disposal, as it represents an adjustment to the original disposal consideration received for Scott-Grant. No tax credit was recognised in respect of this exceptional charge.

6 Employees

	2001 £000	2000 £000
Employee costs		
Wages and salaries	53,323	23,731
Social security costs	4,128	1,931
Other pension costs	1,883	933
	59,334	26,595

	2001	2000
Average number of persons employed		
Full-time	2,886	1,210
Part-time	2,974	1,473
	5,860	2,683
Employee numbers by business activity		
Healthcare Personnel	2,887	2,130
Healthcare Services	2,973	553
	5,860	2,683

7 Directors' emoluments

	2001 £000	2000 £000
Aggregate emoluments	1,658	868
Aggregate gains made on the exercise of share options	431	239
Company contributions to money purchase pension schemes	157	33
	2,246	1,140

The detailed numerical analysis of directors' remuneration is included in the tables in the Remuneration Report on pages 31 and 33 and forms part of these financial statements.

8 Net interest (payable)/receivable

	2001 £000	2000 £000
Unwinding of discount in provisions (note 22)	(144)	(98)
Amortisation of issue costs of bank loans	(27)	–
Interest payable on bank loans and overdrafts	(1,099)	(22)
Interest payable on other loans	(682)	(269)
Interest payable on finance leases	(85)	–
Total interest and similar charges payable	(2,037)	(389)
Bank interest and other investment income receivable	493	814
Net interest (payable)/receivable and similar items	(1,544)	425

9 Taxation

	2001 £000	2000 £000
UK Corporation Tax at 30.00% (2000 – 30.00%) on taxable profits for the year	6,296	5,300
(Over)/under provision in previous years	(182)	34
Deferred tax (note 22)	(101)	(144)
	6,013	5,190

The tax charge in 2000 was reduced by £295,000 following a contribution of £984,000 to the Group's Employee Share Ownership Trust.

10 Profit for the year

The profit after tax for the year dealt with in the accounts of the Company amounts to £9,714,000 (2000 – £12,485,000). Under the provisions of Section 230 of the Companies Act 1985, the Company has not published its own profit and loss account.

11 Dividends

	2001 £000	2000 £000
Dividends paid		
Ordinary shares: 2.90p per share (2000 – 2.42p)	2,540	1,892
Dividends proposed		
Ordinary shares: 5.12p per share (2000 – 4.27p)	4,456	3,355
Total dividends: 8.02p per share (2000 – 6.69p)	6,996	5,247

Dividends waived by the Employee Share Ownership Trust are disclosed in note 16.

12 Earnings per share

Basic earnings per share are calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has only one category of dilutive potential ordinary shares: those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below.

	2001 Earnings £000	2001 Weighted average number of shares thousand	2001 EPS pence	2000 Earnings £000	2000 Weighted average number of shares thousand	2000 EPS pence
FRS 3 basis						
Basic earnings per share	9,479	82,045	11.55p	11,474	78,414	14.63p
Dilutive effect of options	–	835	(0.11p)	–	881	(0.16p)
Diluted earnings per share	9,479	82,880	11.44p	11,474	79,295	14.47p
Adjusted to exclude goodwill amortisation and exceptional items						
Basic – FRS 3 basis	9,479	82,045	11.55p	11,474	78,414	14.63p
Exceptional items (adjusted for taxation)	3,544	–	4.32p	727	–	0.93p
Goodwill amortisation	3,831	–	4.67p	1,210	–	1.54p
Adjusted basic earnings per share	16,854	82,045	20.54p	13,411	78,414	17.10p
Diluted – FRS 3 basis	9,479	82,880	11.44p	11,474	79,295	14.47p
Exceptional items (adjusted for taxation)	3,544	–	4.28p	727	–	0.92p
Goodwill amortisation	3,831	–	4.62p	1,210	–	1.52p
Adjusted diluted earnings per share	16,854	82,880	20.34p	13,411	79,295	16.91p

Notes to the Financial Statements continued

for the year ended 31st December 2001

13 Intangible assets

	Goodwill £000
Group	
Cost	
At 1st January 2001	33,273
Additions (note 16)	125,737
At 31st December 2001	159,010
Aggregate amortisation	
At 1st January 2001	1,845
Charge for the year	3,831
Impairment (note 5)	827
At 31st December 2001	6,503
Net book value	
At 31st December 2001	152,507
At 31st December 2000	31,428

The goodwill arising on all acquisitions is being amortised on a straight-line basis over 20 years. This is the period over which the directors estimate that the value of the underlying businesses acquired in each case is expected to exceed the value of the underlying assets.
The impairment in the year of £827,000 relates to Hertford Medical International. As explained in note 5, the directors have reviewed the carrying value of the Group's 51% interest in the shares of Hertford Medical International Limited. Accordingly it has been determined that goodwill has been impaired by £827,000.

14 Tangible fixed assets

	Leasehold land & buildings £000	Plant & equipment, fixtures & fittings £000	Total £000
Group			
Cost			
At 1st January 2001	12	15,226	15,238
Additions	21	4,611	4,632
On acquisition of businesses and subsidiary undertakings	47	6,344	6,391
Disposals	–	(1,423)	(1,423)
At 31st December 2001	80	24,758	24,838
Depreciation			
At 1st January 2001	9	7,453	7,462
Eliminated on disposals	–	(1,154)	(1,154)
Charge for the year	25	4,920	4,945
Impairment	–	73	73
At 31st December 2001	34	11,292	11,326
Net book value			
At 31st December 2001	46	13,466	13,512
At 31st December 2000	3	7,773	7,776

At 31st December 2001, the net book value of assets held under finance leases, capitalised and included in plant and equipment, fixtures and fittings amounts to £2,036,000. The depreciation charge on these assets during the year amounted to £463,000.

14 Tangible fixed assets continued

	Plant & equipment, fixtures & fittings £000
Company	
Cost	
At 1st January 2001	542
Additions	641
Disposals	(58)
At 31st December 2001	1,125
Depreciation	
At 1st January 2001	272
Eliminated on disposals	(54)
Charge for the year	187
At 31st December 2001	405
Net book value	
At 31st December 2001	720
At 31st December 2000	270

15 Capital commitments

	2001 £000	2000 £000
Capital expenditure that has been contracted but not provided for	258	70

16 Fixed asset investments

	Investment in own shares £000
Group	
At 1st January 2001	28
At 31st December 2001	28

16 Fixed asset investments continued

	Investment in own shares £000	Investment in subsidiaries £000	Total £000
Company			
At 1st January 2001	28	32,600	32,628
Acquisition of businesses and subsidiary undertakings	–	1,723	1,723
Impairment of carrying value of investment in Hertford Medical International	–	(900)	(900)
At 31st December 2001	28	33,423	33,451

Investment in own shares relates to 47,250 shares held by the Group's Qualifying Employee Share Ownership Trust ('QUEST'). The Company established the QUEST to acquire new shares in the Company for the benefit of the employees and directors of the Group.

The shares held by the QUEST at 31st December 2001 have been included in the group balance sheet, as investment in own shares, at a value of £28,350, which is the equivalent to the amounts receivable from employees on exercise of their options. The market value of the shares at 31st December 2001 was £258,694.

Dividends amounting to £3,800 have been waived on shares held by the QUEST under the terms of the trust deed and the costs relating to the scheme are dealt with in the profit and loss account as they accrue.

As explained in note 5, the directors have reviewed the carrying value of the Group's 51% interest in the shares of Hertford Medical International Limited. Accordingly it has been determined that the investment has been impaired by £900,000.

Except where stated, the following subsidiary companies are wholly-owned including 100% voting rights, operate in the United Kingdom and are registered in England & Wales. All companies have been included in the consolidated results of the Group.

Principal undertakings

Undertaking	Business
UK Healthcare Personnel	
British Nursing Co-operations Limited [1] (trading as BNA)	
Grosvenor Nursing Agency Limited	UK healthcare – provision of temporary nurses and carers
Medico Nursing and Homecare Limited [1]	
Medic International Limited	UK healthcare – provision of locum doctors and other medical personnel
Country Cousins (Horsham) Limited	UK homecare – provision of short-term resident carers
Carewatch Care Services Limited	Franchised provider of temporary homecare personnel
Worldwide Healthcare Exchange Limited	Placement of overseas healthcare professionals
UK Healthcare Services	
Healthcall Services Limited	UK healthcare services
Nestor Disability Analysis Limited	Medical staff for the Benefits Agency Medical Services
Nestor Medical Duty Services Limited	UK doctors' duty services
Cleveland Healthcall Services Limited [2]	UK doctors' duty services
Forensic Medical Services Limited	Healthcare and related services in secure establishments
Nestor Healthwatch Limited	Remote healthcare monitoring services
Nestor Primecare Limited	Nurse-led disease management services
Hertford Medical International Limited [2]	Cardiac monitoring

[1] The interest of Nestor Healthcare Group plc is held through intermediate holding companies.
[2] Nestor Healthcare Group plc has a 51% interest.

Related party transactions

Neither the Group nor the Company had any material transactions with related parties during the year. Details of transactions with directors are set out in the Remuneration Report on pages 31 to 33.

16 Fixed asset investments continued

Business acquisitions

The group purchased companies and businesses during the year for a total consideration of £127,014,000 of which £113,031,000 was in respect of the acquisition on 14th September 2001 of HCMS Limited ('Healthcall'). A number of provisional fair value adjustments were made to the book values of the assets and liabilities acquired. All of these purchases have been accounted for as acquisitions.

The fair value of assets and liabilities acquired and the goodwill arising are as follows:

	Healthcall £000	Other £000	Provisional fair value adjustments £000	Provisional fair value to the Group £000
Fixed assets	6,179	2,103	(1,891)	6,391
Current assets and liabilities				
Debtors and prepayments	11,429	5,505	(791)	16,143
Creditors and accruals	(10,817)	(2,857)	(300)	(13,974)
Cash	198	196	–	394
Net current assets	810	2,844	(1,091)	2,563
Finance leases	(2,394)	–	–	(2,394)
Provisions	(2,240)	(58)	(3,024)	(5,322)
Minority interest	(335)	374	–	39
Net assets acquired	2,020	5,263	(6,006)	1,277
Purchase consideration	109,590	12,721	–	122,311
Costs of acquisition	3,441	1,262	–	4,703
Total cost	113,031	13,983	–	127,014
Goodwill arising in year (note 13)	111,011	8,720	6,006	125,737

Provisional fair value adjustments comprise:

	Healthcall £000	Other £000	Total £000
Revaluations			
Impairment of tangible fixed assets	(151)	(1,740)	(1,891)
Alignment of accounting policies			
Liabilities in respect of onerous contracts	(1,524)	(300)	(1,824)
Other			
Provision for doubtful debts	–	(791)	(791)
Provision for deficit on pension scheme	(1,500)	–	(1,500)
	(3,175)	(2,831)	(6,006)

The impairment of tangible fixed assets of other companies relates wholly to the impairment of certain Goldsborough fixed assets. In the financial statements of Goldsborough for the year ended 31 December 2000, an impairment of the same assets amounting to £676,000 was reported. The liabilities in respect of the onerous contracts consist primarily of amounts relating to vacant property commitments.

16 Fixed asset investments continued

Cash flows in respect of purchase of businesses

	Healthcall £000	Other £000	Total £000
Total cost	113,031	13,983	127,014
Deferred consideration	(2,000)	(2,024)	(4,024)
Accrued expenses	(462)	(400)	(862)
	110,569	11,559	122,128
Deferred consideration settled in cash in relation to prior year acquisitions	–	3,200	3,200
Total cash expended on purchase of businesses	110,569	14,759	125,328
Net cash acquired	(198)	(196)	(394)
Net cash flows in respect of purchase of businesses	110,371	14,563	124,934

Healthcall Limited in its last financial year to 31st December 2000, reported a loss after tax and minority interests of £2,035,000. For the period since 31st December 2000 to 14th September 2001, the date of acquisition, the profit and loss account derived from management accounts comprised:

	£000
Turnover	71,683
Operating profit	7,134
Exceptional items	(7,571)
Interest	(4,134)
Loss before tax	(4,571)
Taxation	(204)
Minority interests	(65)
Retained loss	(4,840)
Total recognised loss	(4,840)

17 Debtors

	Group		Company	
	2001 £000	2000 £000	2001 £000	2000 £000
Trade debtors	58,289	32,937	–	–
Amounts owed by Group companies	–	–	171,567	37,729
Dividends receivable from Group companies	–	–	14,481	13,507
Other debtors	1,828	510	133	194
Prepayments and accrued income	5,907	7,479	428	50
Corporation tax	–	–	–	2,333
	66,024	40,926	186,609	53,813

18 Creditors – amounts falling due within one year

	Group		Company	
	2001 £000	2000 £000	2001 £000	2000 £000
Bank overdraft and loans	3,095	25	15,491	–
Loan other than from banks	19,673	4,500	19,673	4,500
Finance leases	1,604	–	–	–
Trade creditors	9,810	6,979	–	–
Amounts owed to Group companies	–	–	8,636	12,312
Dividends proposed	4,456	3,355	4,456	3,355
Corporation Tax	3,886	4,039	87	–
Other tax and social security	6,328	4,700	50	78
Other creditors	15,838	9,609	2,050	4,127
Accruals and deferred income	16,485	5,341	5,872	484
	81,175	38,548	56,315	24,856

19 Creditors – amounts falling due after more than one year

	Group		Company	
	2001 £000	2000 £000	2001 £000	2000 £000
Bank loan	55,005	23	55,005	–
Finance leases	314	–	–	–
Other creditors	82	53	–	–
	55,401	76	55,005	–

20 Net (borrowings)/cash

	Interest rates	Group		Company	
		2001 £000	2000 £000	2001 £000	2000 £000
Unsecured					
Bank overdraft and loans	variable	(58,100)	(48)	(70,496)	–
Loan other than from banks	variable	(19,673)	(4,500)	(19,673)	(4,500)
Finance leases		(1,918)	–	–	–
Total borrowings		(79,691)	(4,548)	(90,169)	(4,500)
Cash at bank and in hand		4,341	13,477	6	7,279
Net (borrowings)/cash		(75,350)	8,929	(90,163)	2,779

Net (borrowing)/cash for the Group is summarised as follows:

	Repayable within 1 year £000	Repayable between 1 and 2 years £000	Repayable between 2 and 5 years £000	Total £000
Unsecured				
Bank overdraft and loans	(3,095)	–	(55,005)	(58,100)
Loan other than from banks	(19,673)	–	–	(19,673)
Finance leases	(1,604)	(314)	–	(1,918)
Total borrowings	(24,372)	(314)	(55,005)	(79,691)
Cash at bank and in hand	4,341	–	–	4,341
At 31st December 2001	(20,031)	(314)	(55,005)	(75,350)
At 31st December 2000	8,952	(23)	–	8,929

21 Financial Instruments

An explanation of the role that financial instruments have had during the year in creating or changing the risks that the Group faces in its activities is set out in the Financial Review on page 22.

Short-term debtors and creditors

Short-term debtors and creditors have been excluded from all the following disclosures.

21 Financial Instruments continued

Interest rate profile of financial liabilities

The interest rate profile of the Group's financial liabilities at 31st December 2001 was:

	Total £000	Floating rate financial liabilities £000	Financial liabilities on which no interest paid £000
At 31st December 2001 – all sterling	**84,445**	**84,363**	**82**
At 31st December 2000 – all sterling	6,667	6,614	53

All the Group's creditors falling due within one year (other than bank and other borrowings) are excluded from the above tables either due to their short-term nature or because they do not meet the definition of a financial liability, such as tax balances.

Included in the above are the Group's provisions of £4,672,000 (2000 – £2,066,000) for onerous contracts (note 22) which meet the definition of financial liabilities. These financial liabilities are considered to be floating rate liabilities as, in establishing the provisions, the cash flows have been discounted and the discount rate is re-appraised at each half yearly reporting date to ensure that it reflects current market assessments of the time value of money and the risks specific to the liability. Other floating rate financial liabilities bear interest at rates, based on LIBOR, which are fixed in advance for periods of between one month and twelve months.

The weighted average period to maturity of financial liabilities that bear no interest at 31st December 2001 was 1.5 years (2000 – 1.5 years).

Interest rate profile of financial assets

The interest rate profile of the Group's financial assets at 31st December 2001 was:

	Total £000	Floating rate financial assets £000	Financial assets on which no interest received £000
Sterling	**4,280**	**4,220**	**60**
Australian dollars	**21**	**–**	**21**
New Zealand dollars	**24**	**–**	**24**
Euros	**1**	**–**	**1**
US dollars	**15**	**–**	**15**
At 31st December 2001	**4,341**	**4,220**	**121**
Sterling	13,376	13,328	48
Australian dollars	31	–	31
New Zealand dollars	14	–	14
Canadian dollars	20	–	20
US dollars	29	7	22
Dutch guilders	7	–	7
At 31st December 2000	13,477	13,335	142

The financial assets comprise loan notes, bank deposits, bank current account balances and cash in hand. The floating rate financial assets earn interest at rates based on relevant national LIBOR equivalents and are all recoverable within one year or on demand. The financial assets on which no interest is received are balances on bank current accounts and cash in hand.

21 Financial Instruments continued

Maturity of financial liabilities

The maturity profile of the group's financial liabilities at 31st December 2001 was:

	Debts £000	Other financial liabilities £000	Total £000
Within 1 year, or on demand	24,372	103	24,475
Between 1 and 2 years	314	1,293	1,607
Between 2 and 5 years	55,005	102	55,107
Over 5 years	–	3,256	3,256
At 31st December 2001	79,691	4,754	84,445

	Debts £000	Other financial liabilities £000	Total £000
Within 1 year, or on demand	4,525	138	4,663
Between 1 and 2 years	23	190	213
Between 2 and 5 years	–	419	419
Over 5 years	–	1,372	1,372
At 31st December 2000	4,548	2,119	6,667

Other financial liabilities include the provision for onerous contracts of £4,672,000 (2000 – £2,066,000).

Borrowing facilities

The Group had the following undrawn committed borrowing facilities available in respect of which all conditions precedent had been met at that date:

	2001 £000	2000 £000
Expiring within 1 year	–	2,250
Expiring between 1 and 2 years	–	–
Expiring in more than 2 years	20,355	–
	20,355	2,250

All the above facilities incur commitment fees at market rates.

Fair values of financial assets and financial liabilities

The following table shows a comparison between the carrying amounts and the fair values of the Group's financial assets and financial liabilities. Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale and excludes accrued interest. Fair values have been calculated by discounting expected cash flows at prevailing interest and exchange rates. For floating rate financial assets and liabilities, fair values approximate to book values.

	2001		2000	
	Book value £000	Fair value £000	Book value £000	Fair value £000
Financial assets	4,341	4,341	13,477	13,477
Short-term financial liabilities and current portion of long-term borrowings	(24,372)	(24,372)	(4,525)	(4,525)
Long-term borrowings	(55,319)	(55,319)	(23)	(23)
Other financial liabilities	(4,754)	(4,754)	(2,119)	(2,119)
	(80,104)	(80,104)	6,810	6,810

Notes to the Financial Statements continued

for the year ended 31st December 2001

22 Provision for liabilities and charges

	Pensions £000	Onerous contracts £000	Deferred tax £000	Total £000
Group				
At 1st January 2001	–	2,066	105	2,171
Transfer to profit and loss account	–	(619)	–	(619)
Utilised in the year	–	(671)	(101)	(772)
Amortisation of discount	–	144	–	144
Acquired with subsidary undertakings (including fair value adjustments)	1,500	3,752	70	5,322
At 31st December 2001	1,500	4,672	74	6,246
Company				
At 1st January 2001	–	1,958	–	1,958
Transfer (to)/from profit and loss account	–	(611)	19	(592)
Utilised in the year	–	(182)	–	(182)
Amortisation of discount	–	103	–	103
At 31st December 2001	–	1,268	19	1,287

Pensions

Following the acquisition of Healthcall and as part of the process for determining the fair value of the assets and liabilities acquired, an actuarial deficit on the Healthcare pension fund has been recognised.

Onerous contracts

The provision for onerous contracts comprises £3,379,000 (2000 - £2,066,000) in respect of vacant property contracts and £1,293,000 (2000 - £nil) in respect of other unavoidable contract losses that are expected to crystallise in 2002 and 2003.

The Group has a number of properties that are either vacant or underlet at a discount. Full provision has been made for the residual lease commitments, together with other outgoings, after taking into account existing sub-tenant agreements for the remaining period of the leases, which at 31st December 2001 is approximately 11 years. During the year, improved terms have been agreed on some lease agreements and as a result, £619,000 of the provision has been released. In determining the provision for onerous contacts, the cash flows have been discounted on a pre-tax basis using appropriate government bond rates.

Deferred tax

The provision for deferred tax comprises the full potential provision arising from accelerated capital allowances.

23 Share capital

	Authorised		Allotted, issued and fully paid	
	Number	£000	Number	£000
Ordinary shares of 10p each				
At 1st January 2001	96,000,000	9,600	78,534,469	7,853
Issued during the year	–	–	8,543,489	855
At 31st December 2001	96,000,000	9,600	87,077,958	8,708

Of the shares issued during the year, 7,900,000 were issued for cash consideration of £37,525,000 in connection with the acquisition of Healthcall and 650,000 were issued for cash consideration of £1,444,000 to employees exercising share options under share option schemes. In addition 47,250 shares remain held by the Employee Share Ownership Trust at 31st December 2001 as described in note 16.

24 Share premium account and reserves

	Share premium account £000	Other reserves £000	Profit & loss account £000
Group			
At 1st January 2001	4,868	864	38,924
Issue of shares	38,114	–	–
Costs of share issue	(684)	–	–
Retained profit for the year	–	–	2,483
At 31st December 2001	42,298	864	41,407

At 31st December 2001, goodwill written off directly against reserves in respect of subsidiaries and associated undertakings still held by the Group was £16,891,000 (1st January 2001 – £16,891,000).

	Share premium account £000	Other reserves £000	Profit & loss account £000
Company			
At 1st January 2001	4,868	25,750	28,705
Profit for the year	–	–	9,714
Issue of shares	38,114	–	–
Costs of share issue	(684)	–	–
Dividends	–	–	(6,996)
At 31st December 2001	42,298	25,750	31,423

25 Notes to the cash flow statement

	2001 £000	2000 £000
Reconciliation of operating profit to net cash inflow from operations		
Operating profit	**17,055**	17,124
Exceptional items	**4,574**	–
Amortisation of goodwill	**3,831**	1,210
Depreciation	**4,945**	2,855
Net profit on sale of tangible fixed assets	**160**	(105)
Utilisation of provisions	**(1,290)**	(978)
(Increase)/decrease in debtors	**(8,784)**	3,292
Increase in creditors	**4,157**	362
Net cash inflow from operating activities	**24,648**	23,760

	2001 £000	2000 £000
Reconciliation of net cash flow to movement in net debt		
(Increase)/decrease in overdraft	**(12,206)**	1,803
Decrease in finance leases	**476**	60
Increase in loans	**(70,155)**	–
	(81,885)	1,863
Increase in loans on acquisition of subsidiary undertaking	**(2,394)**	(23)
	(84,279)	1,840
Net cash at 1st January	**8,929**	7,089
Net (debt)/cash at 31st December	**(75,350)**	8,929

25 Notes to the cash flow statement continued

	Loans and finance leases repayable in less than one year £000	Loans and finance leases repayable in more than one year £000	Overdraft £000	Cash £000	Total £000
Analysis of movements in loans and cash balances					
At 1st January 2001	(4,500)	(23)	(25)	13,477	8,929
Increase in loans and net cash inflow	(15,127)	(54,552)	(3,070)	(9,136)	(81,885)
Increase in loans on acquisition of subsidiary undertaking	(1,650)	(744)	–	–	(2,394)
At 31st December 2001	(21,277)	(55,319)	(3,095)	4,341	(75,350)

26 Operating lease commitments

The Group occupies numerous premises operated under leases whose terms, conditions and expiry dates vary considerably.

The net commitment in respect of operating leases in 2002 is as follows:

	Land & buildings not occupied by Group £000	Land & buildings occupied by Group £000	Total £000
For leases expiring			
within one year	437	6	443
between two and five years	1,221	318	1,539
beyond five years	1,627	1,561	3,188
	3,285	1,885	5,170

In respect of the hire of plant and machinery, operating lease commitments are not material.

27 Contingent liabilities

In 1993, CCHP (a partner in the Cross Country Staffing ("CCS") partnership) commenced a programme of providing tax-free meal and lodging benefits ("Travel Benefits") to the travelling nurses it employed. Such benefits were also provided to nurses employed by CCS following the establishment of the CCS partnership by CCHP and MRA Staffing Services Inc. (a former subsidiary of the Group) on 1st July 1996. The portion of the programme providing meal reimbursements was terminated on 1st June 1999 and applied to all contracts with nurses entered into prior to 1st June 1999.

In November 1998, the Inland Revenue Service of the US (the IRS) issued a payroll tax assessment of US$21.8 million for unpaid payroll tax in relation to the Travel Benefits provided to nurses for the 1993 to 1995 tax years of CCHP which were in the process of being reviewed by the IRS. On 23rd March 1999, CCHP filed a claim against the IRS in the United States Court of Federal Claims protesting this assessment.

CCHP and the Company have received advice from legal advisers in the United States that CCHP should either succeed in opposing this assessment, or be able to settle the case for a significantly lower sum in relation to all tax years during which the programme operated. The Company's liability of such settlement would be limited to amounts relating to the period since 1st July 1996 (being the date of establishment of the CCS partnership) and, taking this into account, the Company's share of any liability would be approximately 22%, with WR Grace & Co. being liable for substantially all of the remaining share.

Based upon the advice received, the directors do not believe it is appropriate to make any provision in the financial statements.

28 Pension commitments

The Group has continued to account for pensions in accordance with SSAP 24 and the disclosures given in (a) are those required by that standard. FRS 17 Retirement Benefits was issued in November 2000 but will not be mandatory for the Group and company until the year ending 31st December 2003. Prior to this, phased transitional disclosures are required.

a) Group pension schemes

The Group operates two funded pension schemes providing benefits based on final pensionable salary. The two schemes are the Nestor Healthcare Group Retirement Benefits Scheme (the Nestor Scheme) and the Healthcall Group Limited Pension Scheme (the Healthcall Scheme). The latter scheme is closed to new members. The schemes are administered by Trustees separately from the affairs of the Group and are contracted out of the additional component of the State Pension Scheme.

Nestor Scheme

Watson Wyatt Partners, consulting actuaries, carried out an actuarial valuation of the Nestor Scheme as at 5th April 2000. On the actuarial basis used, as at that date the market value of the assets was 82% of the value placed on the liabilities in respect of benefits earned to 5th April 2000, allowing for expected future increases in pensionable earnings to Normal Pension Age, treating the scheme as an on-going entity.

The market value of the investments held in the scheme as at the valuation date was £9,059,000. In addition there were pensions in payment secured by the purchase of annuities.

The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of investment return on future net cash flow and the rate of increase in pensionable earnings. These rates were set relative to an assumed long-term rate of price inflation of 3% per annum.

The assumed future rate of investment return, used to discount projected income and outgoing benefits, was a real rate of 3.5% per annum relative to price inflation. Pensionable earnings were assumed to increase on average at a rate of 3% per annum ahead of price inflation.

The employer's contribution rate is calculated using the projected unit method and the shortfall of assets as at 5th April 2000 is amortised as a constant percentage of members' pensionable earnings over the average expected working lifetime of the active members.

Healthcall Scheme

SBJ Benefits Consultants Limited, consulting actuaries, carried out an actuarial valuation of the Healthcall Scheme as at 1st November 1998. On the actuarial basis used, as at that date the assessed value of the assets was 103% of the capitalised value of the accrued benefits, allowing for expected future increases in pensionable earnings to Normal Pension Age, treating the scheme as an on-going entity.

The market value of the investments held in the scheme as at the valuation date was £5,580,000.

The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of investment return and the rate of increase in pensionable earnings.

It was assumed that the investment return would be 2% higher than the average increase in pensionable earnings.

The employer's contribution rate is calculated using the projected unit method and the surplus of assets as at 1st November 1998 is credited to the profit and loss account over the average remaining expected service lives of the active members.

Pension charge

The pension charge for the year was £1,883,000 (2000 – £933,000). The increase reflects higher employer contribution rates to the Nestor scheme, following the finalisation of the actuarial valuation, and the increase in the number of employees participating in the Group's Scheme.

At 31st December 2001, there was a net pension liability of £1,129,000 (2000: £nil) included in the Group's balance sheet comprising an asset of £371,000 included in debtors and a liability of £1,500,000 included within provisions.

b) FRS 17 Retirement Benefits

The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuation of the Nestor Scheme and the Healthcall Scheme at 5th April 2000 and 1st November 1998 respectively, and updated by Watson Wyatt Partners and SBJ Benefits Consultants Limited to take account of the requirements of FRS 17 in order to assess the liabilities of the schemes at 31st December 2001. Assets of the schemes are stated at their market valuation at 31st December 2001.

The financial assumptions used to calculate the schemes' liabilities under FRS 17 are:

	Nestor Scheme	Healthcall Scheme
Valuation method	Projected unit	Projected unit
Discount rate	6.00%	6.00%
Inflation rate	2.50%	2.50%
Increases to pensions in payment and deferred pensions	2.50%	3.25%
Salary increases	4.50%	4.50%

Notes to the Financial Statements continued

for the year ended 31st December 2001

28 Pension commitments continued

The assets in the schemes and the expected rate of return were:

	Value at 31st December 2001 £000
Equities	13,152
Bonds	2,106
Other	1,311
Total market value of assets	16,569
Present value of schemes liabilities	(22,230)
Deficit in the schemes – pension liabilities	(5,661)

The effect on the Group's net assets and profit and loss reserves of the deficit in the schemes' assets would be:

	2001 Group £000
Net assets	
Net assets excluding pension liability	93,590
Pension liability	(5,661)
Net assets including pension liability	87,929

	2001 Group £000
Reserves	
Profit and loss reserve excluding pension liability	41,407
Pension liability	(5,661)
Profit and loss reserve	35,746

29 Share option schemes

The following table sets out options in issue under the various Company schemes at the beginning and end of the year and movements during the year. Share options in issue expire after a certain time and exercise dates vary. Exercise rights are subject to the rules of the schemes and share options in issue are not normally exercisable until the expiry of a period of at least three years. In addition, achievement of performance levels is normally required in all schemes except the SAYE scheme.

	Date of issue	Option price (pence)	In issue 1st Jan 2001	Granted in the year	Exercised in the year	Lapsed in the year	In issue 31st Dec 2001
Company Share Option Plan 1996							
	November 1996	115.00	56,100	–	(52,000)	–	4,100
	April 1998	236.50	175,283	–	(118,841)	(16,544)	39,898
	October 1998	339.50	57,912	–	(39,467)	–	18,445
	April 1999	407.50	66,487	–	(4,122)	(4,112)	58,253
	October 1999	596.50	36,598	–	–	(5,029)	31,569
	May 2000	425.00	420,662	–	(10,451)	(37,052)	373,159
	August 2000	429.50	27,936	–	–	(6,984)	20,952
	November 2000	472.50	6,349	–	–	–	6,349
	March 2001	542.50	–	77,552	–	(8,928)	68,624
	October 2001	510.00	–	88,230	–	–	88,230
			847,327	165,782	(224,881)	(78,649)	709,579
Employee Share Option Scheme 1996							
	November 1996	115.00	352,300	–	(16,800)	–	335,500
	April 1998	236.50	322,405	–	(212,091)	–	110,314
	April 1998	254.50	38,000	–	(38,000)	–	–
	October 1998	339.50	15,074	–	(15,074)	–	–
	April 1999	407.50	145,319	–	(7,656)	(8,879)	128,784
	October 1999	596.50	11,903	–	–	(9,053)	2,850
	May 2000	425.00	499,731	–	(8,929)	(27,552)	463,250
	August 2000	429.50	26,777	–	–	(7,684)	19,093
	November 2000	472.50	46,561	–	–	–	46,561
	March 2001	542.50	–	312,275	–	(15,612)	296,663
	October 2001	510.00	–	205,294	–	–	205,294
			1,458,070	517,569	(298,550)	(68,780)	1,608,309
Savings Related Share Option Scheme							
	December 1997	131.00	201,201	–	(116,161)	(17,632)	67,408
	December 1998	305.00	94,340	–	(3,351)	(14,688)	76,301
	September 1999	412.00	101,901	–	(546)	(20,750)	80,605
	April 2001	447.20	–	168,820	–	(14,083)	154,737
			397,442	168,820	(120,058)	(67,153)	379,051
Total			**2,702,839**	**852,171**	**(643,489)**	**(214,582)**	**2,696,939**

Five Year Summary

	1997 £000	1998 £000	1999 £000	2000 £000	2001 £000
Group profit and loss account					
Turnover (including share of associated undertaking)					
Continuing operations	144,342	221,345	277,445	292,802	**400,965**
Discontinued operations	29,029	32,519	22,673	–	–
	173,371	253,864	300,118	292,802	**400,965**
Less: Share of turnover of associated undertaking	(29,029)	(32,519)	(22,673)	–	–
Turnover	144,342	221,345	277,445	292,802	**400,965**
Operating profit					
Continuing operations	7,053	9,466	10,274	17,124	**21,629**
	7,053	9,466	10,274	17,124	**21,629**
Share of operating profit of associated undertaking (discontinued operations)	2,821	3,937	2,704	–	–
	9,874	13,403	12,978	17,124	**21,629**
Exceptional items	–	–	(5,206)	(727)	**(4,574)**
Operating profit after exceptional items	9,874	13,403	7,772	16,397	**17,055**
Net interest	8	(680)	(521)	425	**(1,544)**
Profit before taxation	9,882	12,723	7,251	16,822	**15,511**
Taxation	(2,573)	(3,600)	(4,274)	(5,190)	**(6,013)**
Profit after taxation	7,309	9,123	2,977	11,632	**9,498**
Equity minority interests	–	73	(55)	(158)	**(19)**
Profit attributable to shareholders	7,309	9,196	2,922	11,474	**9,479**
Profit before taxation, goodwill, amortisation and exceptional items	9,882	12,780	13,035	18,759	**23,916**
Earnings per share – FRS 3 basis	9.55p	11.90p	3.76p	14.63p	**11.55p**
Earnings per share – before goodwill amortisation and exceptional items	9.55p	11.97p	11.21p	17.10p	**20.54p**
Dividends per share	3.87p	4.65p	5.58p	6.69p	**8.02p**

	1997 £000	1998 £000	1999 £000	2000 £000	2001 £000
Group balance sheet					
Goodwill	–	3,711	21,337	31,428	**152,507**
Tangible fixed assets	3,685	5,533	7,724	7,776	**13,512**
Investments	870	2,521	772	28	**28**
Total fixed assets	4,555	11,765	29,833	39,232	**166,047**
Current assets	22,887	36,006	40,961	40,926	**66,024**
Liabilities and provisions	(17,404)	(25,845)	(31,953)	(36,247)	**(63,131)**
Net operating assets	10,038	21,926	38,841	43,911	**168,940**
Net cash/(borrowings)	(4,002)	(10,088)	7,089	8,929	**(75,350)**
Net assets	6,036	11,838	45,930	52,840	**93,590**
Share capital	7,718	7,745	7,814	7,853	**8,708**
Share premium account	2,548	2,839	3,620	4,868	**42,298**
Other reserves	(4,230)	1,358	34,545	39,788	**42,271**
Equity shareholders' funds	6,036	11,942	45,979	52,509	**93,277**
Equity minority interests	–	(104)	(49)	331	**313**
	6,036	11,838	45,930	52,840	**93,590**
Group cash flow statement					
Net cash inflow from operating activities before exceptional items	2,534	4,925	8,928	23,760	**24,648**
Cash flow from exceptional items	–	–	–	–	**(2,246)**
Dividends received from associated undertakings	188	1,798	1,209	–	**–**
Interest (paid)/received	124	(154)	(471)	510	**(964)**
Tax paid	(2,087)	(3,527)	(4,265)	(3,776)	**(6,268)**
Capital expenditure	(1,905)	(2,954)	(4,147)	(2,365)	**(4,523)**
Acquisitions and disposals	1,067	(3,187)	23,441	(11,867)	**(124,934)**
Equity dividends paid	(2,749)	(3,205)	(3,868)	(4,674)	**(5,883)**
Issue of shares	731	318	850	275	**38,285**
Increase/(decrease) in loans	–	(1,000)	(1,520)	(60)	**69,679**
Increase/(decrease) in cash	(2,097)	(6,986)	20,157	1,803	**(12,206)**

Shareholder Information

Financial calendar

Announcement of 2002 results (provisional)

For the half-year	July 2002
For the year	March 2003
Annual Report and Accounts circulated	April 2003
Annual General Meeting	May 2003

Dividends

Proposed final dividend 2001	
Announcement	4th March 2002
Ex-dividend	17th April 2002
Record date	19th April 2002
Payment date	24th May 2002
Interim dividend 2002 (provisional)	
Announcement	July 2002
Payment	October 2002

Analysis of shareholdings

At the date of this report the Company has 1,423 shareholders who hold over 87 million ordinary shares between them, analysed as follows:

Size of holding	Number of shareholders	% of shareholders	Number of shares	% of shares
1–5,000	977	68.66	1,031,344	1.19
5,001–50,000	258	18.13	4,288,389	4.92
50,001–100,000	49	3.44	3,408,832	3.91
100,001 and over	139	9.77	78,368,212	89.98
	1,423	100.00	87,096,777	100.00

Type of shareholder				
Individuals	749	52.64	1,776,892	2.04
Nominee companies*	543	38.16	81,420,899	93.48
Other corporate and public bodies	116	8.15	1,421,385	1.63
Trust companies	15	1.05	2,477,601	2.85
	1,423	100.00	87,096,777	100.00

* This category includes the beneficiaries of pension funds, unit trusts, life assurance companies and investment trusts.

Share Registrar

The Company's registrar is Computershare Investor Services PLC, of PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH.

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